

Macro Pulse

Positioning amid policy pressures

JUNE 2025

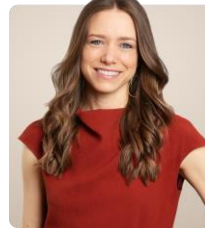


INVESTMENTS

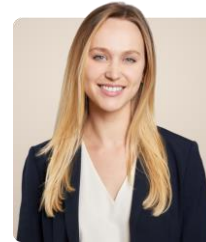
Demonstrating the depth and breadth of the New York Life Investments platform

Objective, top-down analysis

Global Market Strategy at New York Life Investments



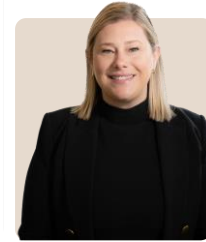
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Seasoned bottom-up expertise

Multi-boutique structure

AFFILIATED BOUTIQUES



UNAFFILIATED SUB-ADVISORS



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Executive summary

Amid rampant global policy uncertainty, investors face a difficult truth: clarity may not come soon. Incoming economic data will likely blur signal and noise, as recent policy changes distort underlying economic trends. Meanwhile, deeper global shifts are underway. Capital-intensive investment is rising across asset classes and geographies, traditional asset class relationships are decoupling, and private markets are growing and democratizing. We believe **this is a critical moment for investors to rethink portfolios** in light of changing business, consumer, and geopolitical realities — not to wait for certainty that may never arrive.

Policy uncertainty has disrupted investor expectations for 2025. U.S. trade policy has taken the spotlight as a market driver this year, but we are seeing other areas of uncertainty, namely in tax and fiscal policy, entering the fore. Early readings from hard economic data suggest that policy shifts are already distorting business and consumer behavior. Confidence has weakened considerably, and inflation expectations have soared.

Though we believe the worst-case scenario for trade disruption is behind us, expirations on pauses on tariffs – on U.S. trade partners in general, China, and now the EU – are now mounting for the summer. Regardless of how negotiations play out, we expect U.S. tariff levels will be at their highest in a century. In the meantime, “hard” economic data is showing a pull-forward of consumer and business demand to get ahead of rising U.S. tariff levels. This impact is already visible in U.S. imports, and inventories are on the rise. But in the second half of the year, this demand may fade.

Accordingly, our base case scenario for the U.S. economy remains that growth will slow considerably this year. A technical recession is possible in H1, as a result of higher imports (a technical drag on GDP); whether that continues in H2 is a coin flip in our view. Perhaps as important for allocation is our concern that the combination of higher input prices, paired with consumers less tolerant of inflation, will pressure

corporate revenues and margins.

Globally, U.S. tariff policy is having an impact on investors’ asset class and geographic preferences. Traditional relationships between asset classes like gold, oil, the U.S. dollar, and Treasuries appear to be changing, reflecting less demand on the margin for U.S. assets. In our view, this means investors must think more holistically about diversification.

After a strong Q1, we expect the relative outperformance of global equities to slow, but we have high conviction in geographic diversification amid so many economic and geopolitical shifts. Higher government bond yields globally, reflecting both policy commitments and fiscal sustainability concerns, challenge investors to be agile in considering both risks parameters and income generation.

In private markets, policy uncertainty has stalled hoped-for improvements in deal flow. However other forces for improvement – strong credit quality, sponsor pressure, democratization of access, lower interest rates – remain.

This piece is designed to share our holistic global economic, geopolitical, and asset allocation views. Use the links in the [table of contents](#) page to explore.

High conviction investment ideas

Markets may be paralyzed by uncertainty, but investors don't have to be.

| CALL OR CONDITION | | INVESTMENT CONSIDERATIONS | |
|-------------------|--|---------------------------|--|
| EQUITY | <ul style="list-style-type: none"> Investors are unlikely to have a clear sense of economic and market scenarios for several more months. The path and timing of policy change in key areas — trade, federal spending, tax, deregulation, immigration — remain unclear, and the effects on economic data are mixed. We expect market volatility to continue, but improved valuations from recent market lows make a focus on earnings quality paramount. As risks shift toward lower growth and higher inflation in the U.S., global enthusiasm for U.S. assets is in question. Traditional relationships between asset classes like gold, oil, the U.S. dollar, and Treasuries are shifting. Investors may seek broader diversification; within equities, this may include attention to geographic and structural changes, such as the increase in defense and infrastructure spending in Europe. Small companies have less buffer against input price rises, and less opportunity to adjust supply chains. The trend in artificial intelligence is here to stay. Digital and energy infrastructure are already benefitting from sustained and diversified investment; we see this as a compelling entry point into the AI theme. | 1 | Stay invested, with a focus on earnings quality. |
| | | 2 | Investors can consider deploying equity-like risk into high yield corporate credit, where fundamentals and yields are attractive, outweighing price risk stemming from tight spreads in our view. |
| | | 3 | Ex-U.S. outperformance is likely to slow after a strong Q1, but we believe geographic diversification is prudent amid global risks. |
| | | 4 | We strongly prefer large caps. Small caps will continue to underperform until growth is more resilient – unlikely this year. |
| | | 5 | Diversify equity exposure into broader reflections of the AI theme, including energy, materials, and digital infrastructure. |
| FIXED INCOME | <ul style="list-style-type: none"> Policy rates have moved lower and downside risks to growth are rising. We expect the Fed to stay on hold as long as possible due to upside inflation risks. Investors can counter reinvestment risk by deploying cash. Uncertainty around growth and inflation point to higher and more volatile <i>market</i> interest rates. We do not feel comfortable calling a near-term peak <i>or trough</i> in Treasury rates; duration is an unreliable source of returns. We expect U.S. public credit quality (interest coverage, maturity timeline) to remain very strong by historical standards, supported by still-resilient economic activity levels. | 6 | Staying short duration in credit allocation can solve for both rate volatility and any longer-term credit quality concerns. |
| | | 7 | Volatility in the Treasury curve prompts our neutral-to-short duration preference. Consider short duration credit (IG, HY, munis) balanced with taxable munis, a high-quality infrastructure play. |
| | | 8 | Strong fundamentals create an attractive opportunity in structured credit and convertible bonds. In floating rate loans, only the strongest portions of credit quality are likely to hold water. |
| OTHER | <ul style="list-style-type: none"> Incidence of geopolitical risk has moved higher since the COVID-19 pandemic and is gaining proximity to safe-harbor U.S. assets. Investors may use diversification and inflation-aware exposures to hedge against event risk. Though the endgame of U.S. trade policy is uncertain, the global trends towards re-globalization, digitization (AI), and energy independence point to capital intensity, infrastructure investment, and stickier inflation. Private markets allocation is growing and democratizing. | 9 | Consider a geopolitical risk hedge of equal parts oil, gold, and bitcoin as a satellite sourced from equity. |
| | | 10 | Inflation-aware asset classes such as commodities, materials, and real estate may benefit from the macroeconomic backdrop. |
| | | 11 | Qualified investors seeking diversification into the private markets may consider the less correlated lower middle market. |

1 Top investment questions

Top questions

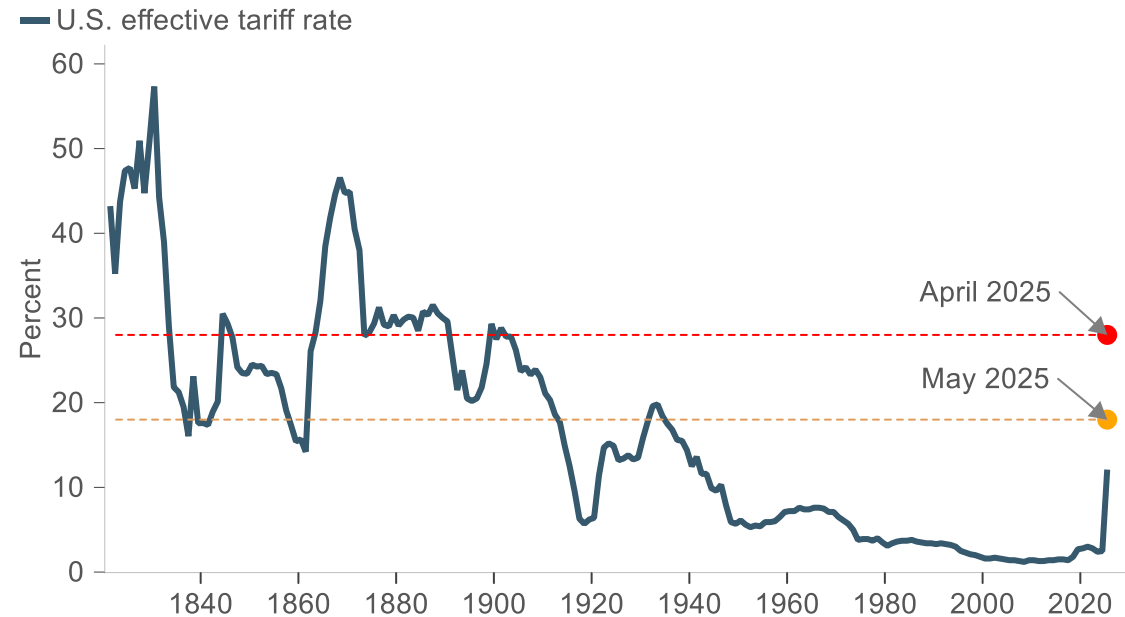
- [What's next for U.S. trade policy?](#)
- [How are tariffs affecting the economy right now?](#)
- [How will the U.S. economy evolve from here?](#)
- [What's next for the Trump administration?](#)
- [What is the impact of the U.S. sovereign downgrade?](#)
- [Is U.S. market preference shifting?](#)
- [How do economic scenarios impact allocation choices?](#)

What's next in U.S. trade policy?

Regardless of how negotiations turn out, we expect the effective tariff rate on U.S. imports to be the highest in approximately a century.

- In May, tariff policy remained volatile: U.S.-China tariffs were brought down from 145% and 125%, respectively, to 30% and 10% until Aug 12. A 50% tariff on the EU goods may come into effect on July 9th if a trade agreement is not reached.
- Court rulings challenging blanket reciprocal tariffs may prompt the administration to pursue ad-hoc tariffs under various legal authorities, contributing to unpredictable tariff policy.

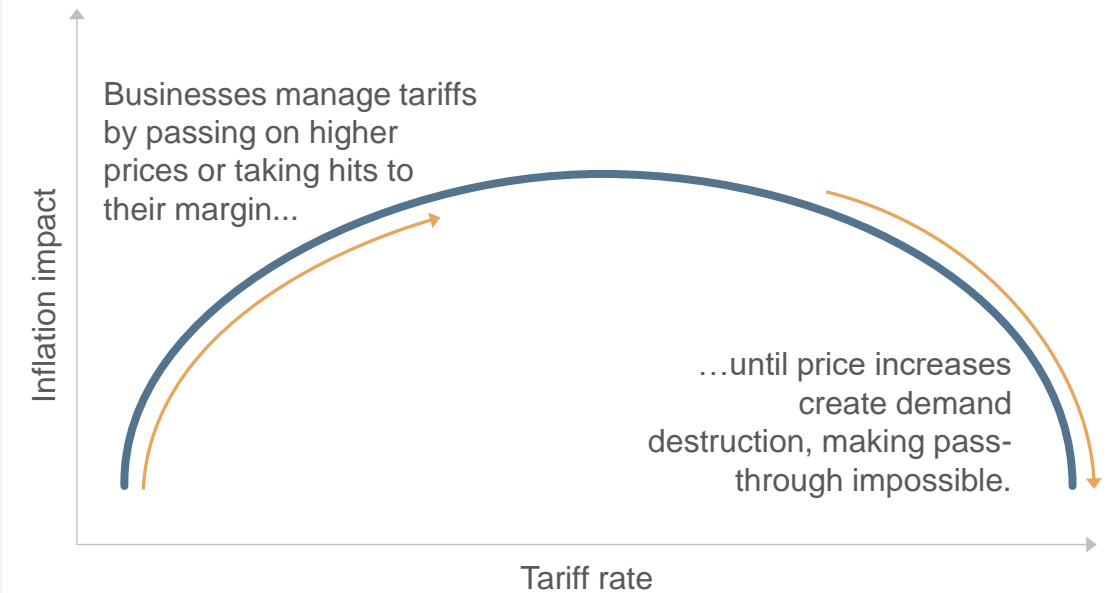
Regardless of negotiations, we expect a materially higher tariff rate on U.S. imports



Sources: New York Life Investments Global Market Strategy, Tax Foundation, The Budget Lab at Yale, Macrobond, June 2025.

- It is increasingly unlikely that tariff policy will be “settled” between now and the midterms; volatility and uncertainty persist. We expect that overall, the coming 18 months will feature “moderate” tariffs including a degree of negotiation – still the highest tariff rates in ~100 years.
- Importantly, moderate tariffs may add to, not detract from, upside inflation risks. At extreme highs, tariffs are likely to create deflationary demand destruction. When businesses and consumers can “muddle through” with moderate tariffs, we see a clearer inflationary impulse.

“Lower” tariffs may mean higher price pressures



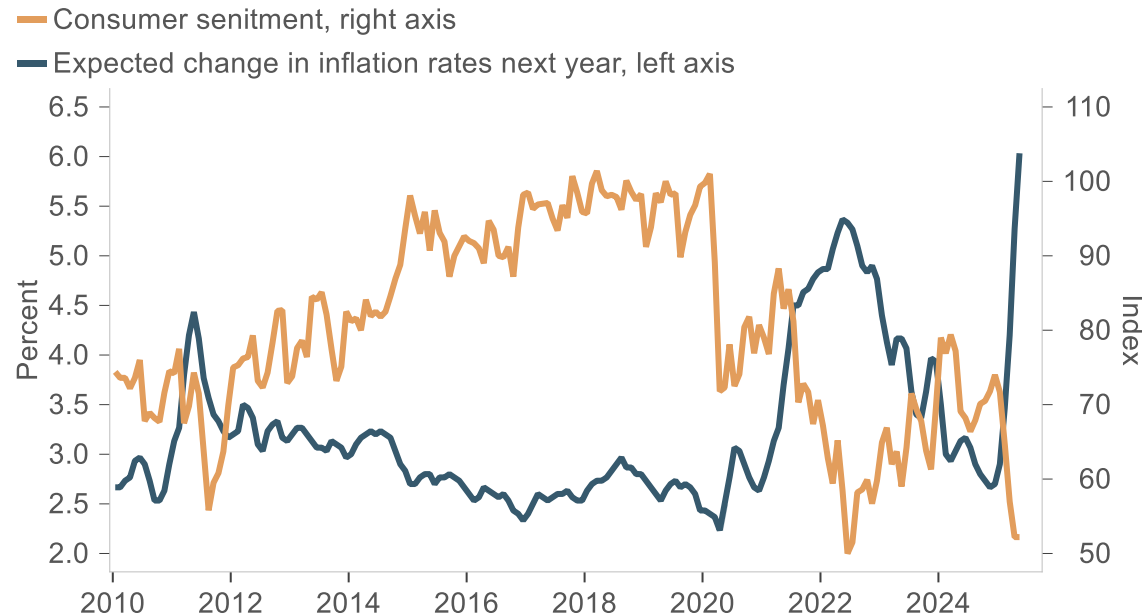
Sources: New York Life Investments Global Market Strategy, 2025. For illustrative purposes only.

How are tariffs affecting the economy right now?

“Soft” survey data shows a deterioration in consumer and business sentiment that will flow into “hard” data over time.

- Tariff policy uncertainty is impacting business and consumer sentiment. University of Michigan, Conference Board, NFIB (small business) and PMI (larger manufacturing and services) surveys show that businesses and consumers are increasingly concerned about uncertainty, worsening future economic conditions, and rising near-term inflation.
- In particular, consumer surveys show a 30-40 year displacement in inflation expectations. Per the University of Michigan survey, consumer sentiment is near its lowest levels in post-war U.S. history.

Surveys show higher inflation expectations and lower consumer confidence across the board



- So far, trade data is the best “hard” data indicator, showing that businesses and consumers are pulling forward purchases to avoid tariffs. Higher imports, driven by industrial inputs and consumer goods, are a mathematical drag on GDP, and pulled GDP growth in Q1 2025 down to -0.3% QOQ.
- Going forward we expect to see impacts to inventory management, corporate investment, and consumer outcomes. Credit spreads are likely to reflect these developments first, followed by corporate earnings.

The U.S. trade balance in goods has normalized following a surge in industrial and consumer goods imports



How will the U.S. economy evolve from here?

Tariffs are already impacting activity as consumers and businesses pull forward purchases. The extent of disruption ahead is still highly uncertain.

- Currently, sentiment data and market reactions are the primary means we have to determine whether, by how much, and in what areas tariffs and policy uncertainty are affecting the economy. Nobody knows how quickly this will translate into the “hard data” on economic activity.
- Even as hard data rolls in, it has not had as much signaling power as usual. This is because consumer and corporate behavior is likely to be erratic in the near term.
- Example: inflation is biased to the upside in the near term not because of a holistic tariff

- impact, but because many companies and consumers are trying to get ahead of tariffs, and are pulling their purchases forward.
- We believe that a technical recession for 1H 2025 is likely, as higher imports (reflecting pulled-forward demand) and the resulting buildup in inventories drag on the GDP calculation. Accordingly we will be focused on consumer and investment figures to get a clear a sense as possible of the underlying growth impulse of the economy.



| Timeline | June/July | Q3 2025 | Q4 2025 |
|------------------------------|---|---|---|
| Policy-related shifts | <ul style="list-style-type: none"> • Extension of "Trump tax cuts" and lifting of the debt ceiling through the "big, beautiful" reconciliation bill • New reciprocal tariff rates to be announced before the 90-day tariff pause ends on July 9 | <ul style="list-style-type: none"> • The 90-day reduction in reciprocal tariffs between the U.S. and China expires August 12 • If not resolved in reconciliation bill, the debt ceiling will likely be reached between mid-July and early October | <ul style="list-style-type: none"> • Potential government shutdown risk if FY26 appropriations remain unresolved • Further regulatory oversight shifts in energy, environment, financial services, and tech |
| | <ul style="list-style-type: none"> • Reciprocal tariff implementation may stop-and-start due to court rulings and appeals on the legality of reciprocal tariffs | | |

What's next for the Trump administration?

Policy areas most likely to see material changes include: taxes, tariffs, regulation, and immigration.

Taxes

- In May, the House narrowly passed its "big, beautiful bill" reconciliation package, which includes the extension of the tax cuts in the 2017 Tax Cut and Jobs Act, enhanced border security funding, reduced Medicaid spending, and rollbacks to the Inflation Reduction Act's clean energy tax credits.
- The bill introduces several new tax breaks, including exempting tips and overtime and raises the SALT cap from \$10,000 to \$40,000. It also raises the debt ceiling by \$4 trillion, securing government borrowing capacity through 2026.
- In its current form, CBO estimates that the bill will add \$2.3 trillion to the national debt over the next decade, while adding modestly to GDP growth – the Penn-Wharton Budget Model puts GDP gains at 0.5% over the next 10 years.
- The reconciliation package now advances to the Senate, where it will likely face significant changes.

Tariffs

- Tariff uncertainty remained high in May after two courts ruled that the Trump administration's reciprocal tariffs were illegal, giving the administration mere days to remove the tariffs. The administration appealed the decisions.
- The courts' decisions followed two months of uncertainty around tariff rates which ranged from 25% on Canada and Mexico to 145% on China - this was later reduced to 30%.
- Should higher courts rule against the administration, we expect the administration to find other authorities to enact their tariff policies, which will result in universal tariff rates that average between 10% and 20% and tariffs on China around 60%, with the average effective tariff rate remaining materially higher than a few months ago.
- While some countries are already retaliating against U.S. tariffs with counter-tariffs, limiting U.S. purchase of critical manufacturing inputs, and company-controls, most are waiting to see what happens before pursuing retaliatory measures.

Deregulation & DOGE

- We expect the second Trump administration to roll back many existing regulations in industries such as financial services, healthcare, and the traditional oil & gas sector. In his inaugural address, Trump declared, "Drill, baby, drill."
- Though impacts to regulation have so far been delayed, companies are hopeful that an eventual deregulatory effort will improve mergers & acquisitions activity and ease the cost of doing business.
- In the first few weeks of the Trump administration, the Department of Government Efficiency (DOGE) gained much attention for its efforts to weed out inefficient costs. Since then, its influence and operations have been substantially reduced by a combination of legal injunctions, internal dissent, and public backlash.
- It's important to remember that the executive branch has little ability to cut spending itself; any significant spending cuts will have to go through Congress.

Immigration

- Immigration is front and center for the new administration. One of Trump's Day 1 executive orders was again declaring a national emergency at the U.S.' southern border.
- Inflation impacts are likely to be mixed. Reduced labor supply could put upward pressure on wages. On the other hand, that slower immigration could reduce inflation in areas such as shelter, resulting in inflation impacts that are more ambiguous overall.
- The most immediate impact on deportation or detainment efforts is likely to be on growth – immigrants begin consuming (food, shelter) as soon as they enter a country, increasing demand in their area. Interestingly, the CBO found that migration actually reduces the deficit because undocumented immigrants are not eligible for federal benefits but can still pay federal taxes.
- Small business still cites quality of labor and inflation as their greatest operating concerns.

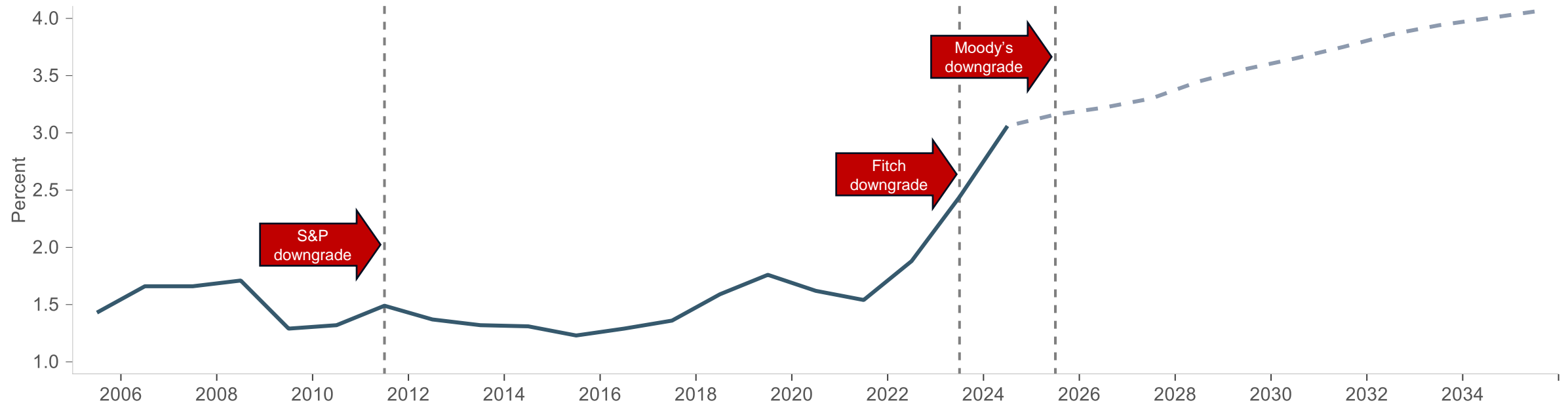
What is the impact of the U.S. sovereign downgrade?

The “full faith and credit” of the U.S. government is about more than just credit ratings, but the downgrade represents another hit to confidence.

- In May, Moody's was the last of the three major credit rating agencies to downgrade the U.S. sovereign credit rating (**chart**), just as the reconciliation bill regarding future spending and raising the debt ceiling moved through Congress.
- As for monetary policy, much remains the same. Higher debt levels make the Federal Reserve's job harder – adding to inflationary pressure, pushing up interest rates, and, if interest rates rise high enough, potentially crowding out private investment.
- While the Moody's decision does not come as a surprise – most impacts had already been felt during the S&P and Fitch downgrades – it reinforces investors' concerns about rising U.S. debt levels and may encourage further moves away from dollar-denominated assets at the margin.
- The “sovereign ceiling” means companies cannot have a Moody's rating higher than the sovereign, but this does not affect municipal bonds; 13 states still hold a Moody's AAA rating.
- *Stay tuned for our Megatrends research on how debt sustainability will drive market outcomes.*

U.S. government debt has only grown since it was first downgraded

— Federal net interest payments as a percent of GDP & 10-year forecast

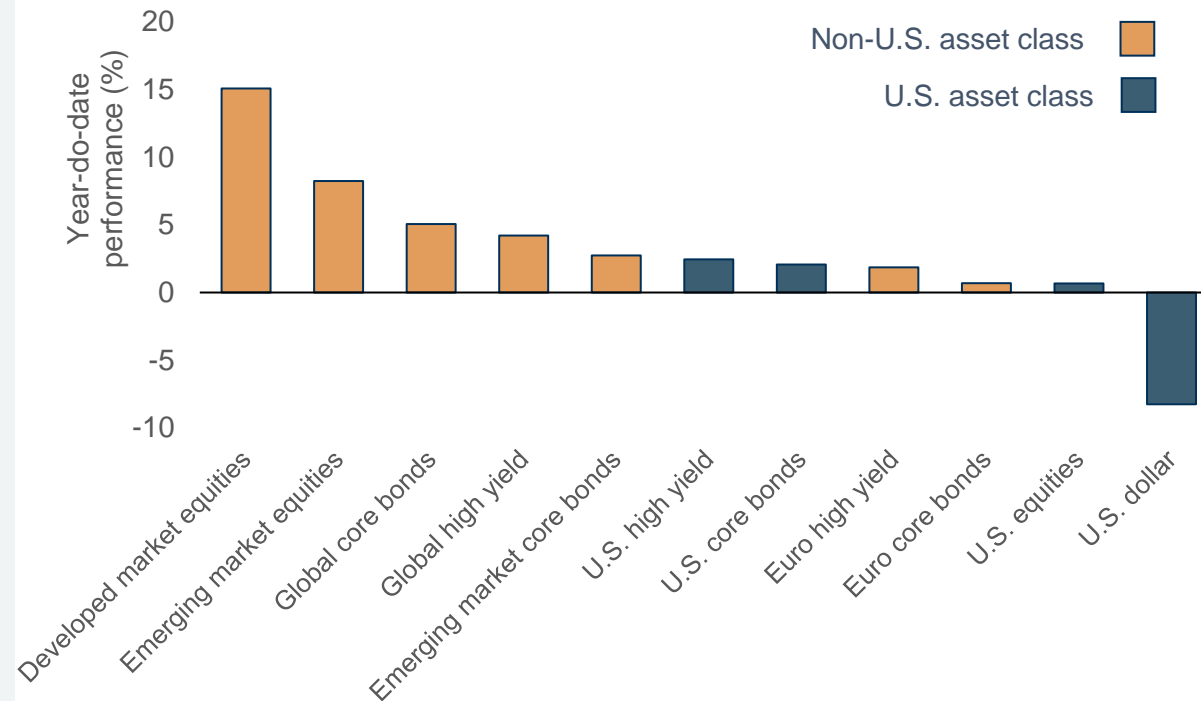


Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, June 2025.

How is U.S. market preference shifting? (1/2)

Global investors are questioning the role that U.S. assets play in their portfolio.

Non-U.S. asset class outperformance expected to hold up



Global investors are reassessing their allocation to U.S. assets

- Policy uncertainty in the U.S. has challenged investor expectations about the U.S. and global economies, market volatility, and even traditional asset class relationships. In response, investors are questioning long-term U.S. economic leadership, and whether U.S. assets play the same “safe haven” role they have in the past.
- Heightened geopolitical entanglements contribute to this concern, leading investors to question the risk-return tradeoff of U.S. exposure.

Portfolio flows are showing early signs of regional rebalancing

- Investors are rotating into non-U.S. assets amid relatively better growth prospects and political stability.
- Some global allocators are prioritizing alignment with supply chain hubs and strategic industries like defense and technology outside the U.S.

Can non-U.S. outperformance continue?

- Yes, faster rate cuts abroad have helped normalize yield curves, modestly revive credit creation, and support more rate-sensitive sectors like financials and industrials. If those trends hold – especially as U.S. policy risk remains high – non-U.S. assets may keep their edge.

See our [international equity pages](#) for more context.

Sources: New York Life Investments Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), Macrobond, June 2025. DM equities: MSCI EAFE Index: equity index covering DM countries. U.S. core bonds: Bloomberg Aggregate Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. EM equities: MSCI EM index: a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. EM core bonds: Bloomberg Emerging Markets Aggregate Index: a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt. U.S. equities: S&P 500 index: a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States. Global core bonds: Bloomberg Aggregate Index: a flagship measure of global investment grade debt from a multitude local currency markets. U.S. dollar: The U.S. Dollar Index: the general int'l value of the USD. U.S. high yield: Bloomberg US Corporate High Yield Bond Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Euro high yield: Bloomberg Pan-European High Yield Index: measures the market of non-investment grade, fixed-rate corporate bonds across Europe. Global high yield: Bloomberg Global High Yield Index: a multi-currency flagship measure of the global high yield debt market. Euro core bonds: Bloomberg Euro Aggregate Index: a benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. It is not possible to invest in an index. Past performance is not a guarantee of future results.

How is U.S. market preference shifting? (2/2)

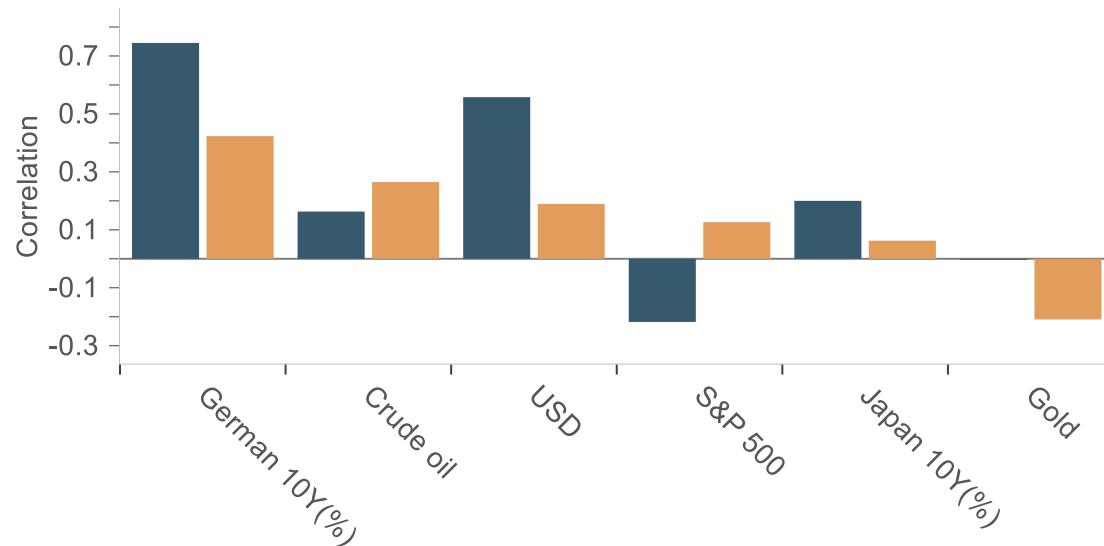
Traditional asset class relationships are breaking down. Investors may have to re-think portfolio construction to maintain proper diversification.

- The historical link between Treasury yields and the U.S. dollar is breaking down. Usually, higher bond yields give the U.S. dollar a boost; the higher yield makes Treasuries attractive and so global investors demand U.S. dollars in order to buy them. Today, that relationship is at its weakest in three years.
- It is too early to say that these trends will stick, but the combination of geopolitical and market changes in recent weeks, alongside conversations with clients, suggest to us that markets may be starting to question the safety of U.S. assets in times of stress.

U.S. 10-year yield relationships have seen significant changes

6-month correlation of daily changes

■ 1-year prior ■ Latest

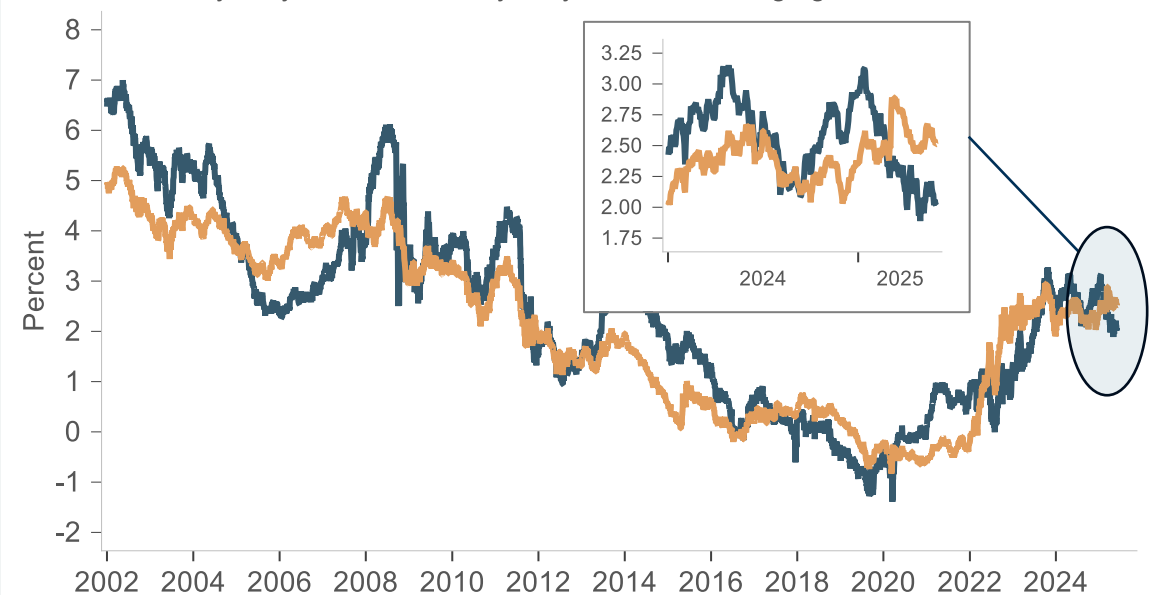


Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, S&P Global, Intercontinental Exchange (ICE), Macrobond Financial AB, Macrobond, June 2025.

- In response, investors may need to reconsider their reliance on traditional diversification strategies and rethink how they manage risk in portfolios. Put simply: diversification may require a broader toolkit. We are seeing gold and other real assets gaining favor as inflation hedges; lower currency hedging costs making international bonds more attractive (below), and a weaker dollar driving up commodity prices – offering an entry point for commodity exposure. Geographic diversification and leveraging secular investment trends are additional ways investors can adapt.

Bund yields are more attractive than hedged Treasuries for European investors

— German 10-year yield — U.S. 10-year yield + euro hedging cost



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond Financial AB, Bloomberg, Macrobond, June 2025.

How do economic scenarios impact allocation choices?

An investment and capital markets playbook for scenarios can help investors weigh their options over the coming 6-month time horizon.

| | Stagflation-lite (base case) | Full-blown stagflation (risk for H2) | Recession (risk for H2) |
|---------------------------------|---|---|---|
| Scenario | <ul style="list-style-type: none"> GDP growth (primarily consumption and investment impulse) slows considerably but remains positive; inflation reaccelerates | <ul style="list-style-type: none"> GDP growth contracts; inflation reaccelerates | <ul style="list-style-type: none"> GDP growth contracts; inflation decelerates or outright slows Demand destruction among consumers, pressure on corporate margins, and layoffs outweigh initial inflation impulse from tariffs |
| Yield Curve | <ul style="list-style-type: none"> Fed biased hawkishly to manage inflation unless growth severely disappoints (e.g. full stagflation scenario) 10Y range: 3.5–5.0% | <ul style="list-style-type: none"> Wider range of possibilities on both front and long end of curve as policy and markets are torn between downside growth and upside inflation. Fed more likely to step in if growth stagnates 10Y range: 3.0-5.0% | <ul style="list-style-type: none"> Fed can support growth as inflation falls 10Y range: 2.5–3.5% Add duration as long-term market interest rates move lower |
| Dollar | <ul style="list-style-type: none"> Dollar dependent on Fed policy: If growth stagnates more than inflation rebounds, Fed cutting could prompt the dollar lower. If interest rate differentials remain large between U.S. and Europe, Euro likely to be relatively stronger | | <ul style="list-style-type: none"> Dollar dependent on global growth: if recession is global, flight to “safe haven” assets can support a strong dollar. If U.S. underperforms, dollar is likely weaker. |
| Equities | <p>U.S. equities: stay invested, but rebalance towards resilient themes</p> <ul style="list-style-type: none"> Stay large cap Quality companies with pricing power across both growth and value styles Dividend-yielding equities can harness both quality and income generation potential to offset upside inflation surprises Defensive positioning can be used as a hedge against further downside risks to growth; in full-blown stagflation, defensive positioning likely to outperform <p>International exposure dependent on relative economic growth. A 50% currency hedge can remove undue currency exposure</p> | | <p>U.S. equities: policy is more likely to support growth</p> <ul style="list-style-type: none"> Profitable growth in large caps Defensive sectors: consumer staples, utilities, health care, real estate Infrastructure equity <p>Relative growth is likely to drive relative equity market performance: U.S. equities may underperform if major DMs avoid recession, but be ready to harness a rapid policy-led recovery</p> |
| Credit | <p>Spread widening will depend on corporate pricing power</p> <ul style="list-style-type: none"> Convertibles Barbell IG and HY credit | <ul style="list-style-type: none"> Spread widening likely to occur regardless of fundamental corporate health; this may represent a buying opportunity Steer toward higher quality credit and away from bank loans | <p>Spread widening driven by contracting growth</p> <p>Quality:</p> <ul style="list-style-type: none"> IG credit Taxable Munis (infrastructure bond) |
| Private markets and alts | <ul style="list-style-type: none"> Private markets: publicly traded large & mega funds will be most impacted by volatility; focus on real levers of value creation; real assets Precious metals Real estate equity if interest rates fall Commodity sleeve as a hedge for upside inflation risks | <ul style="list-style-type: none"> Private fundraising environment likely challenged; we favor the historical resilience of the lower middle market where the impact of trade and other global factors is less felt Real assets Gold Commodities likely to outperform | <ul style="list-style-type: none"> Careful credit analysis and security selection is paramount as default rates rise; we favor the highest quality segments of private credit and the historical economic resilience of smaller funds Gold |

Opinions of New York Life Investments Global Market Strategy, June 2025. Scenarios are for illustrative purposes only.

2 U.S. economic & market outlook

U.S. economic cycle

- [GDP growth](#)
- [Status of economic cycle](#)

Monetary policy & financial conditions

- [Fed outlook](#)
- [Fed balance sheet](#)
- [Long-term interest rates](#)
- [Yield curve and bank lending](#)
- [Market-based financial conditions](#)

Economic indicators

- [Inflation](#)
- [Labor market](#)
- [Consumer](#)
- [Housing](#)
- [Business](#)

Fiscal policy

- [Fiscal outlook](#)

Risks to economic growth are rising

The U.S. economy had arguably the most constructive possible backdrop with which to face risks of stagflation and recession.

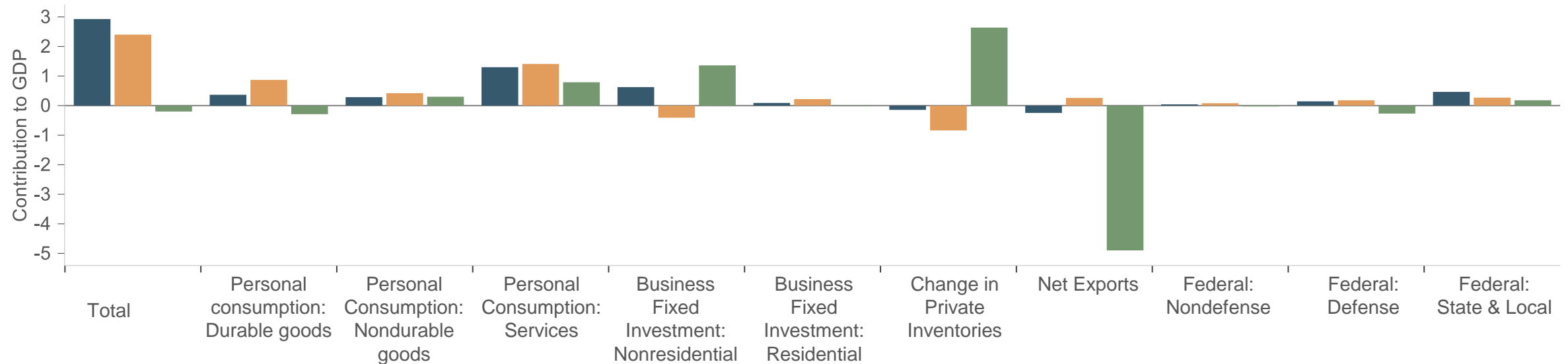
- GDP growth in the post-pandemic period stabilized above its trend pace of 2.0-2.5%, driven largely by strong consumer activity (about two-thirds of GDP).
- Consumers have been boosted by a well-balanced labor market, with both income and wealth effects supporting high-income segments in particular.
- We believe the U.S. economy has a strong possibility of a slowdown in the coming 12 months, responding to new tariff measures and broader policy uncertainty as households

- face higher prices and companies pause hiring and investment plans.
- A technical recession is very likely for 1H 2025, as strong imports, representing a pull-forward in consumer and corporate demand ahead of tariffs, weigh on GDP.
- We are focused on consumption and investment to give us a sense of the underlying growth impulse of the economy.

Economic growth reversing even as demand is pulled forward amid tariff risks

Percentage point contributions to total GDP, quarterly annualized rate

■ 2023-2024 average ■ 2024 Q4 ■ 2025 Q1



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), Macrobond, June 2025.

The Federal Reserve will avoid action until growth visibly deteriorates

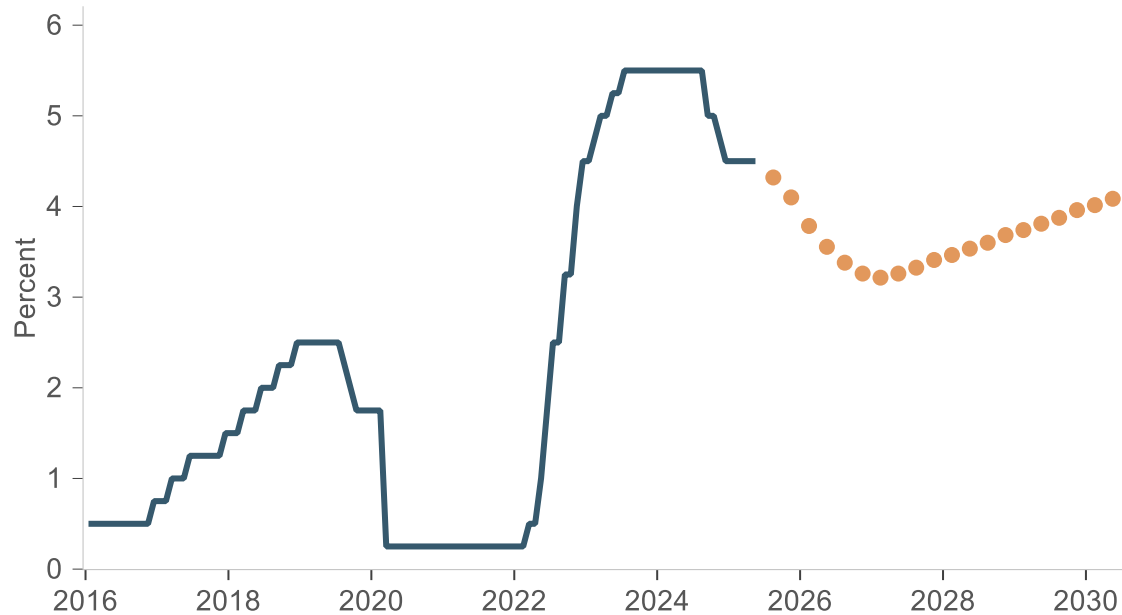
We expected inflation pressure to keep the Fed biased hawkishly this year. Even with updates to our economic outlook, this view sticks.

- Policy uncertainty pressures the Fed's mandates in opposite directions: upside risk to inflation, and downside risk to growth.
- Until and unless growth expectations deteriorate meaningfully, we believe the Fed will maintain its stance that tariff-led inflation upside and growth downside cannot be effectively addressed with monetary policy changes.

- We expect only one 25-basis point policy rate cut this year, largely a means to signal the Fed is still on its path back to neutral (our best estimate is around 3.0-3.5% in nominal terms).
- Financial conditions create a swing vote in Fed policy. A 20% or greater deterioration could signal outsized risk to the real economy, prompting quicker cuts.

The market is expecting interest rates to remain structurally higher

Federal funds rate and implied Fed funds futures curve



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bloomberg, Macrobond, June 2025.

Our Fed cuts checklist: conditions met, but we are sleeping with one eye open

| Condition | Status | Met? |
|--|---|------|
| Inflation expectations well anchored | Long-term inflation expectations remain well anchored. | ✓ |
| Core inflation moving closer to target | Core inflation is still above the Fed's target but has made significant progress over the last year. Policy risk amid resilient growth may re-firm inflation, which would slow the Fed's pace of cuts all else equal. | — |
| Unemployment rate $\geq 4.0\%$ | The unemployment rate sits around 4.0%, and the Fed has said that it does not want employment to weaken more. | ✓ |
| Wage growth commensurate with stable prices | Wage growth is higher than the 3.5% year-on-year figure that we believe would make the Fed comfortable with maintaining a rate cutting cycle. Stickiness in wages may require a slower pace of rate cuts. | — |
| Financial conditions still well behaved | The Fed would need to see a strong deterioration in financial conditions – and therefore a visible risk to the economic outlook – before pre-emptively easing. Using 2018's "insurance" cuts as a guideline, we would expect that an equity market selloff of 20% or more would be required to push the Fed to act. | — |

Opinions of New York Life Investments Global Market Strategy, May 2025.

Fed balance sheet tightening is nearing an end - particularly if recession hits

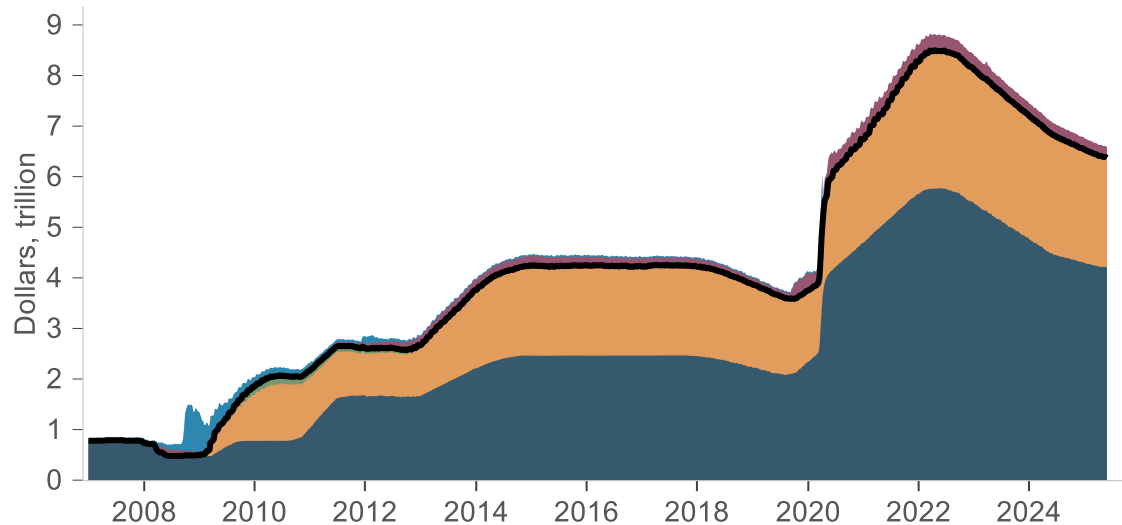
Quantitative tightening (QT) was slowed in February and is likely to end this year as the Fed achieves its reserve management goals.

- The Fed's balance sheet, as any balance sheet, is made up of assets (**left chart**) and liabilities (**right chart**). As the Fed's reduces its assets via QT – having shaved off \$2T in assets since 2022 – it must also reduce its liabilities. Fed liabilities include bank reserves, currency in circulation, and vehicles for liquidity support such as its reverse repo facility (orange area, right chart).

- Post-pandemic, the Fed kept reserve levels abnormally “abundant” to ensure maximum flexibility in supporting liquidity and bank functioning. Needs for liquidity support are lower today, allowing the Fed to reduce reserves to “ample” levels safely, but recession presents a risk that the Fed may need to re-grow its balance sheet.
- The optimal level of Fed assets at which the Fed should halt its QT is hotly debated among practitioners and is a subjective estimate, even for the Fed itself.

Asset side of balance sheet: Fed has tapered nearly all its pandemic purchases

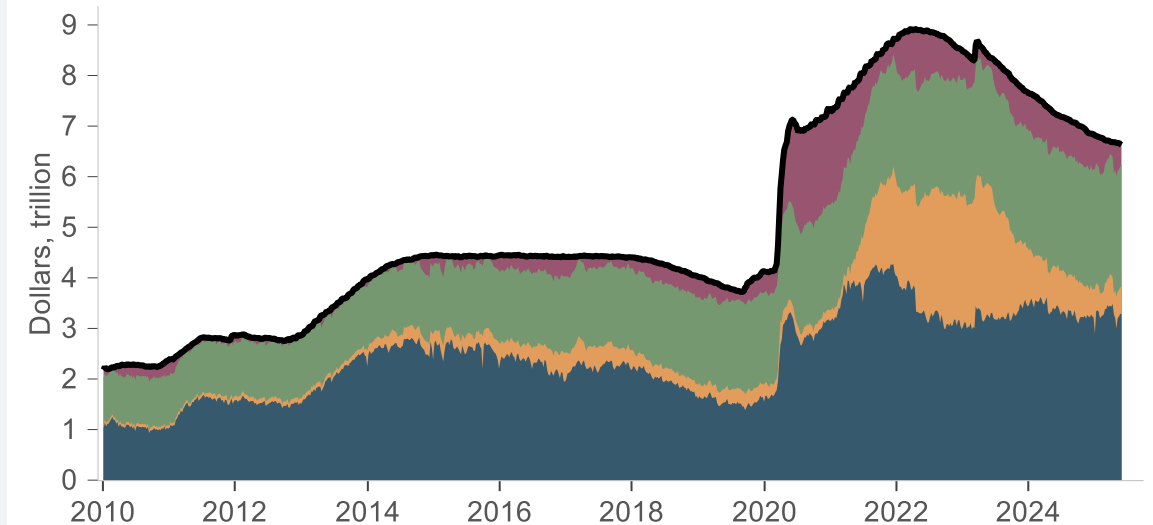
— Fed assets held outright ■ Other ■ Repos, premiums/discounts ■ Agencies ■ MBS ■ Treasuries



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, June 2025. MBS: Mortgage-backed securities. Agencies: Agency-backed securities. Repos: repurchase agreements, used to adjust systemic liquidity. Other: misc assets amassed during GFC, including Term Asset-Backed Securities Loan Facility, used to create asset backed securities of consumer loans.

Liability side of balance sheet: from "abundant" to "ample" reserves

— Total Federal Reserve Liabilities ■ Other liabilities ■ Currency in circulation ■ Reverse repurchase agreements ■ Bank reserves



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, June 2025. Reverse Repurchase Agreements area a facility used by the Fed to support bank liquidity. Other liabilities include non-reserve deposits held by the Federal Reserve.

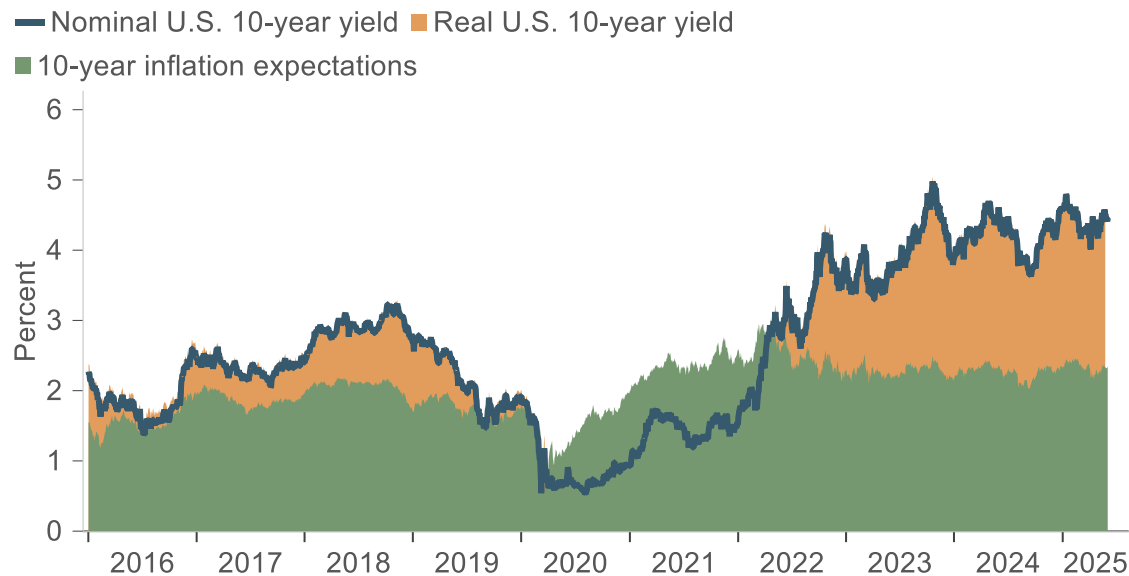
Market rates are likely to be higher and more volatile in our view

Long-term rates will be torn between upside inflation risks and downside growth risks. Investors should expect more rates volatility in response.

- Long-term interest rates are driven by expectations for inflation, the policy rate path, and the term premium, which encompasses expected supply and demand for Treasuries.
- Higher long rates reflect rising inflation expectations, a belief that the policy rate will not revert to previous lows this cycle, and the possibility of higher Treasury issuance as reflected in a rising term premium.

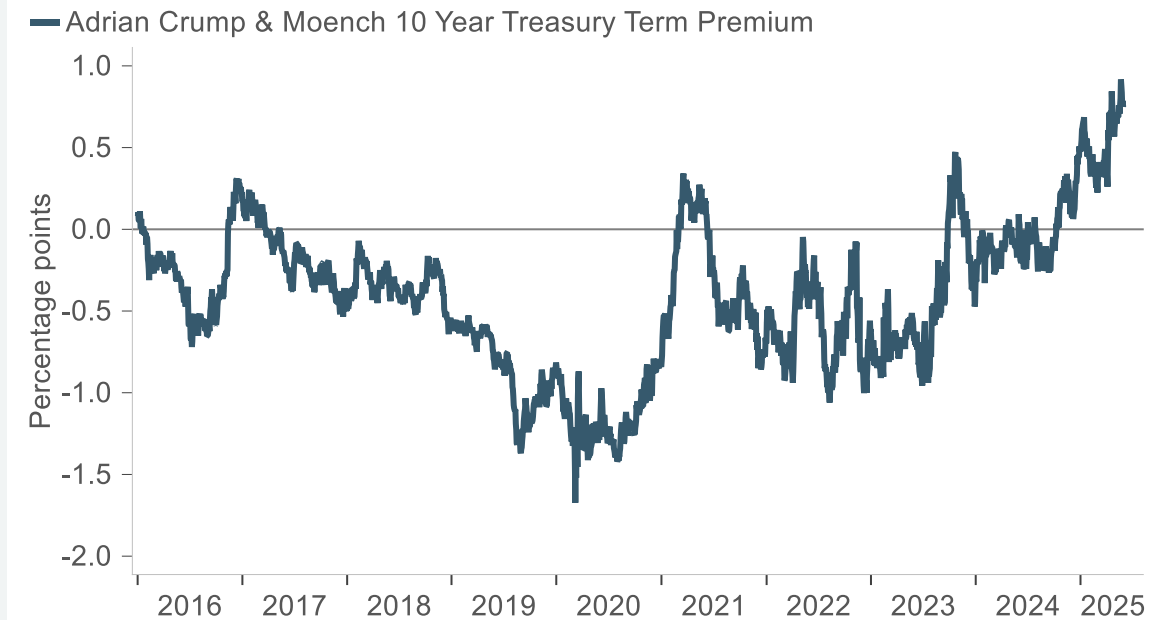
- The 10Y remains torn between the administration's stated focus on bringing down the 10Y yield and mounting questions around long-term supply and demand for Treasuries. From here, we have a very wide range of expectations for the 10Y as markets balance inflation and growth risks. The resulting volatility increases our conviction that duration is not where we prefer to take risk.

Composition of the 10-year Treasury yield: real rates have led nominal yields higher



Source: New York Life Investments Multi-Asset Solutions, Federal Reserve, U.S. Department of Treasury, Macrobond Financial AB, Macrobond, 6/2/2025. Figures may not sum due to rounding. The nominal yield is the stated yield on an investment, before adjusting for inflation. The real yield is the yield adjusted for inflation. Past performance is not a guarantee of future results.

The rising term premium reflects expectations for greater Treasury supply (issuance) relative to demand



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025.

Rates volatility raises questions for the yield curve, and for bank lending

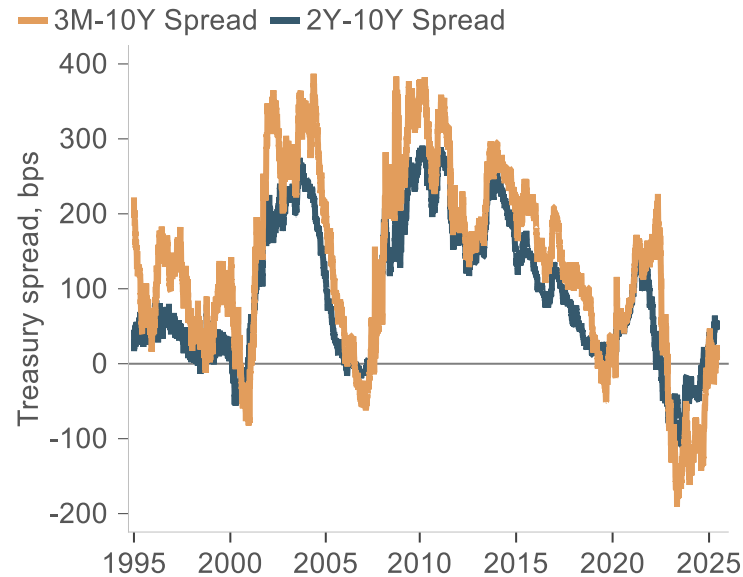
Both supply and demand of loans to businesses and households had moved from depressed levels to neutral, but we see risks to both.

While the 2Y-10Y spread has normalized, the 3M-10Y spread is hovering near zero. This is driven by a shallower-than-expected easing cycle on the front end and downward pressures on the 10Y. It is likely that growth expectations and policy uncertainty, and not the state of normalization of the yield curve, that will drive near-term loan demand.

Tight lending standards typically precede economic contractions, but the most recent era of restrictive conditions did not produce a recession. The Senior Loan Officer Opinion Survey (SLOOS) now points to lending slightly tightening, which aligns with today's more normalized but increasingly volatile market yields.

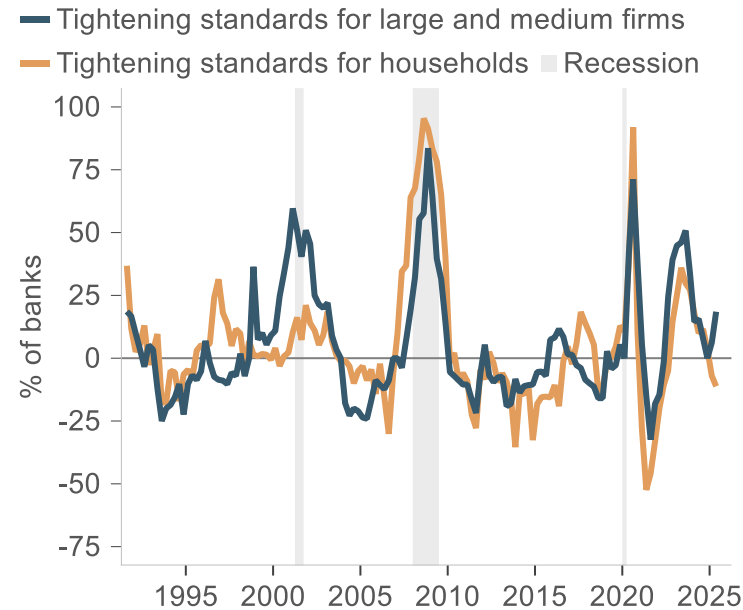
On the demand side: late in 2024, both households and businesses were exiting an era of depressed demand for bank loans. Looking ahead, policy uncertainty is likely to push out major borrowing decisions by both corporations and households.

The Treasury yield curve has finally normalized across tenors



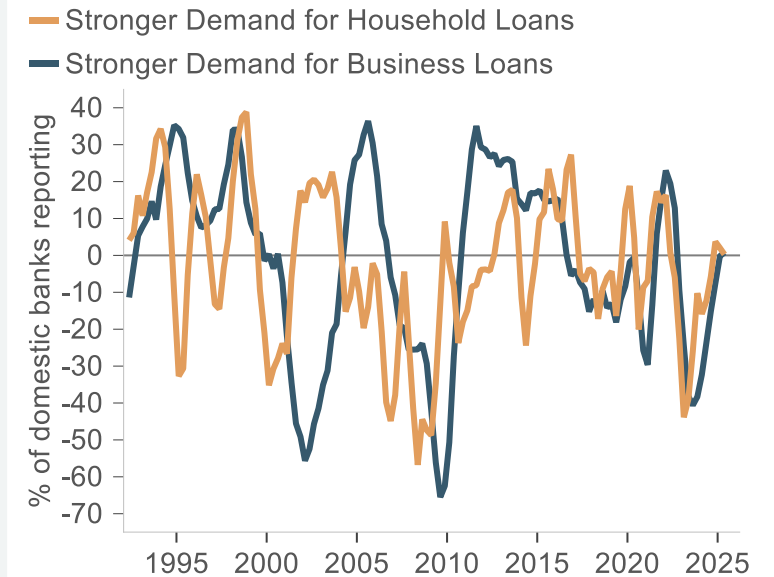
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025.

Bank lending standards have moved to neutral



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, June 2025.

Loan demand is picking up for both businesses and households



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, June 2025.

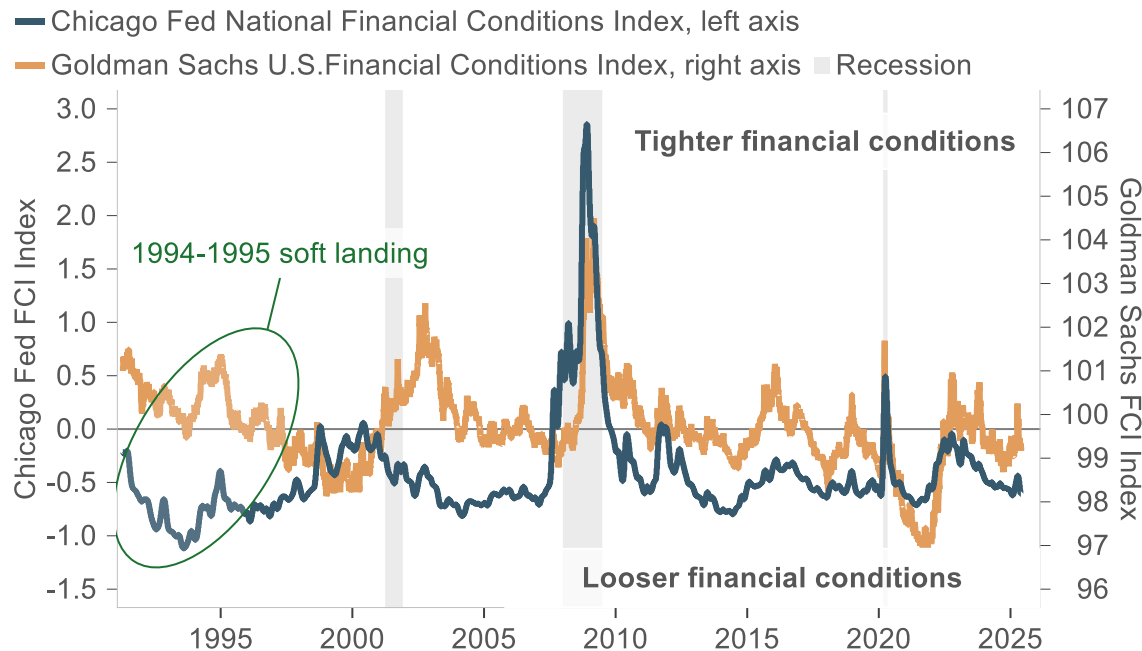
Market-determined financial conditions are likely to tighten further

In this moment of peak policy uncertainty, pressure on equity valuations and credit spreads is likely to push financial conditions tighter.

- Market-determined financial conditions are not meaningfully tight (**left chart**), as equity valuations remain above long-term averages and credit spreads have not blown out (**right chart**); the U.S. dollar also remains strong.
- That said, market volatility has pulled equities off their highs and is pressuring spreads to widen, suggesting conditions may tighten meaningfully from here.

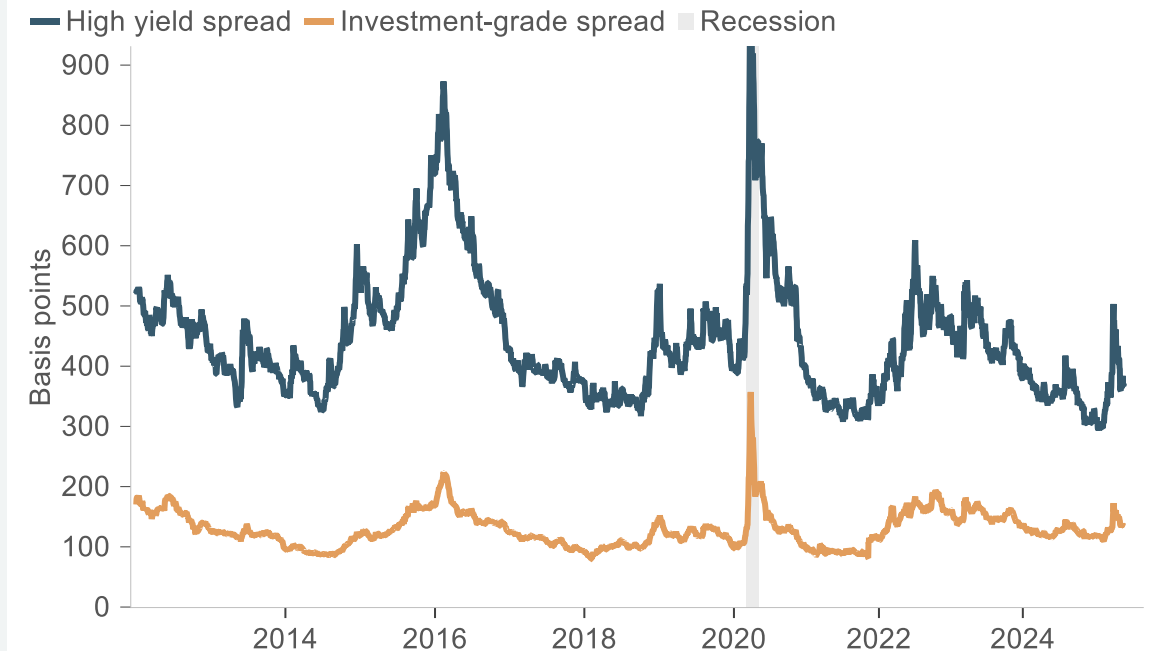
- While we expect some spread widening, we remain constructive on credit quality in the near term. Even amid tariffs, post-pandemic programs and improved cash management support confidence in corporates' ability to repay over the next 2–3 years. A sharp downturn could lift default rates broadly, but high-quality issuers are less likely to be affected.

Market financial conditions are already loose, but can change on a dime



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, June 2025.

Spreads are near historic lows for high yield credit



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, June 2025.

The economy was still coping with the fastest inflation since the 1970s, before tariffs

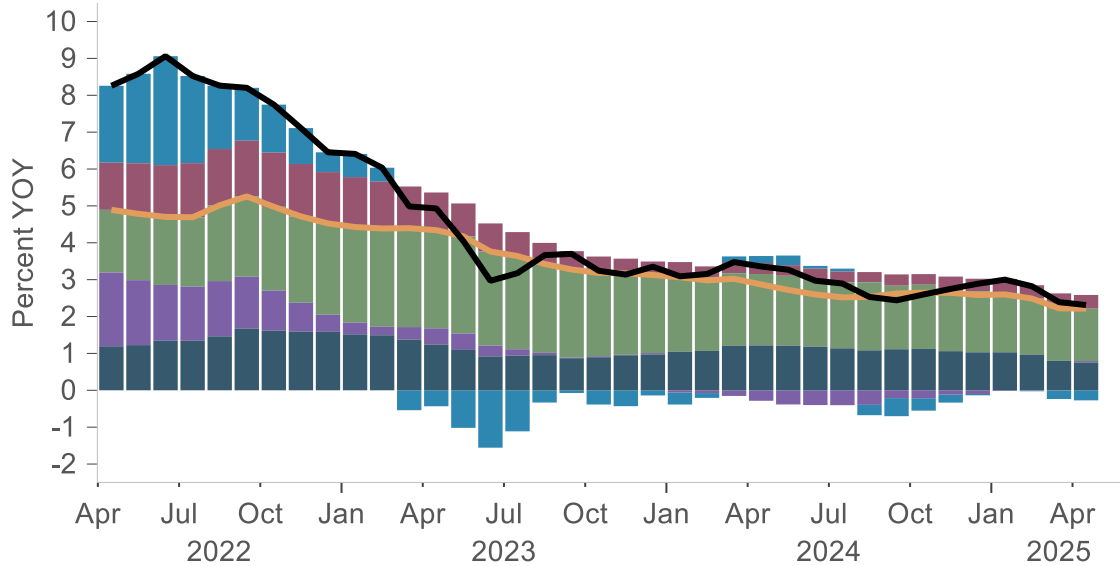
Without a true “landing” from the previous cycle, inflation cannot re-anchor. Tariffs materially increase upside inflation risks.

- U.S. inflation has moderated from its peak in mid-2022 but remains above the Fed's 2% target.
- Pre-tariff factors keeping inflation sticky: a solid jobs market, strong yield generation and equity price performance; economic growth and a resilient consumer, primarily among high-income households.

- For much of Q4 2024 and Q1 2025, the balance of growth, employment, inflation, and rates looked like Goldilocks.
- However, upside risks to inflation are firming as tariffs work their way through sentiment and the markets. Today, we find it overwhelmingly likely that tariffs will drive a reacceleration of inflation, regardless of the economic growth path.

Shelter inflation proving the stickiest

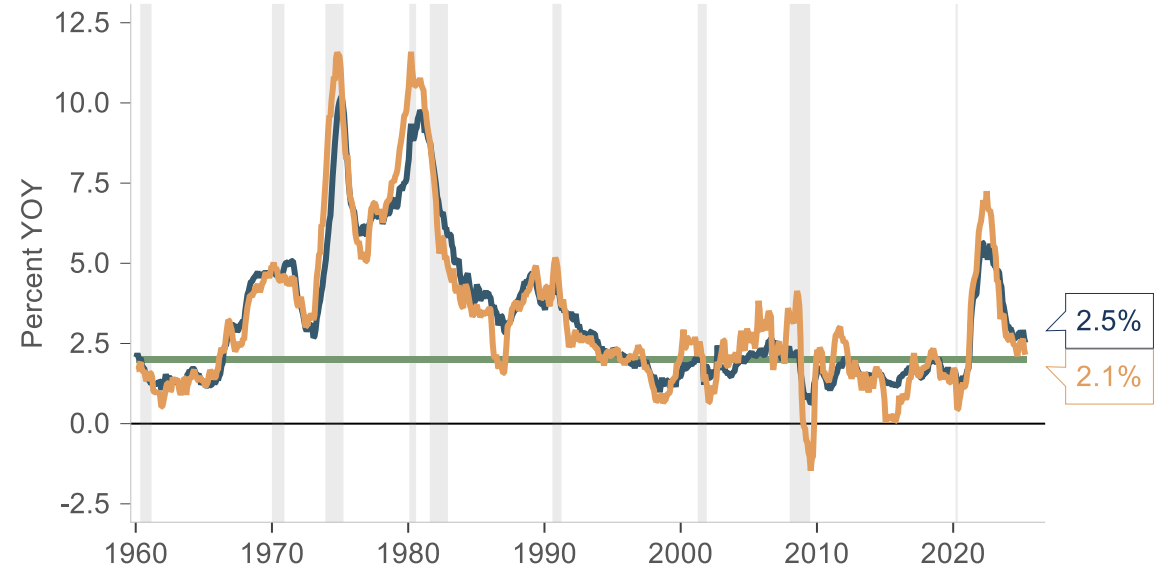
— Headline CPI — Core CPI — Energy — Food — Shelter — Core Goods
■ Core Services



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

PCE inflation is far from peak, but progress toward target is slowing

— Headline PCE — Core PCE — Fed target: 2% ■ Recession



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Federal Reserve, Federal Reserve Bank of New York, Macrobond, June 2025. PCE: Personal Consumption Expenditure, the Fed's targeted inflation measure

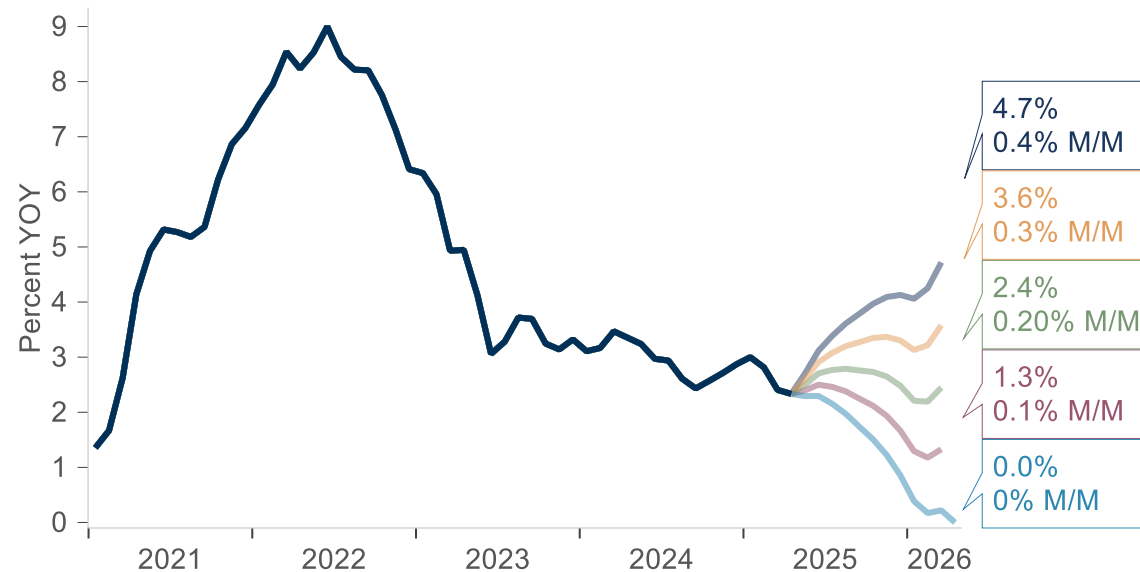
Material upside risks to inflation stem from both new tariffs and existing pressures

It takes only incremental monthly increases, particularly in the largest components of the inflation basket, to create a double peak in inflation.

- Inflation reacceleration risk is top of mind for the Fed: monthly increases greater than 0.2% in inflation will likely keep the Fed on hold.
- Tariff-led inflation is particularly worrying for Fed policy, as policy affects the demand side of the economy, not supply, and higher interest rates are unlikely to be directly effective in taming tariff-led price increases.

Incremental monthly increases could easily create a reacceleration trend in CPI

12-month ahead CPI evolution based on M/M scenarios

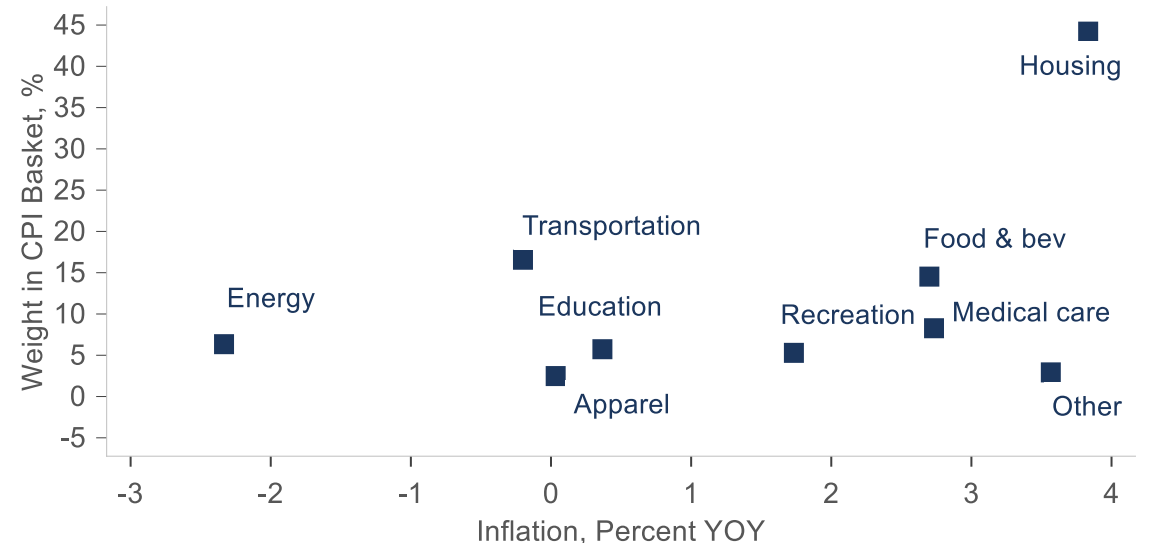


Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

- Aside from tariff impact, housing inflation has been a key inflation pressure. It remains stubborn due to tight supply and resilient demand. A decade of underbuilding and locked-in low mortgage rates keep inventory constrained, while demographic trends sustain demand.
- Meanwhile, higher labor, materials, and insurance costs also keep maintenance costs high. These costs impact both owners and renters in the CPI basket.

The largest components of the inflation basket are also seeing fastest pace of price growth

■ Component's weight in CPI basket vs latest pace of inflation (trailing 6-month average)



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

Inflation expectations also point to upside risk for prices

Rising inflation expectations for the next year reflect greater policy uncertainty, and expectations can drive inflation itself.

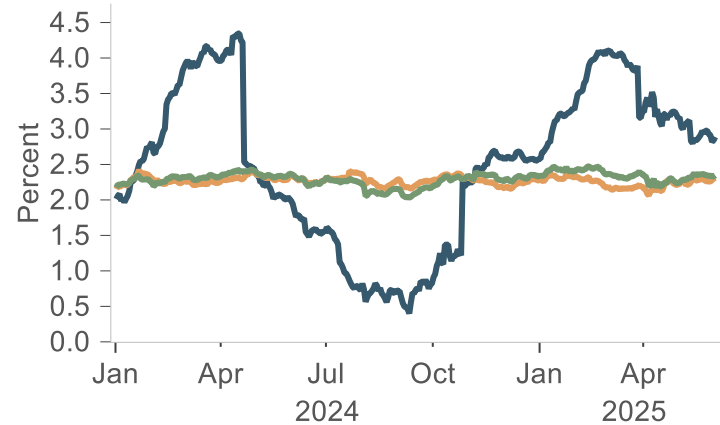
Near-term inflation expectations tend to be more volatile than longer-term expectations, as long as the market believes the Fed can hold to its 2.0% target. In recent months, near-term breakevens have moved higher, while long-term breakevens reflect downward growth pressure.

Inflation swaps have a more compressed range, but point to the same trend as breakevens: near-term inflation expectations have fully de-anchored, while long-term inflation expectations are compressed by concerns about the new structural growth outlook.

Consumer surveys are naturally noisy, but the recent spike in next-year inflation expectations shows consumers are extremely worried about prices – specifically, a tariff-led reacceleration in inflation. Expectations for 1-year forward inflation in the U Mich survey are at their highest since the 1980s; 5-year fwd expectations at their highest since the '90s.

Long-term TIPS-derived inflation breakevens are well anchored; near-term remains volatile

— US Breakeven 10 Year
— U.S. Breakeven, 5yr/5yr Forward
— US Breakeven 1 Year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. Inflation breakevens are the implied rate of inflation implied by the pricing of TIPS, Treasury Inflation Protected Securities. The 5yr 5yr breakeven: expected inflation in 5 years, for the following 5 years.

Zero-coupon inflation swaps also point to a more volatile near-term inflation outlook

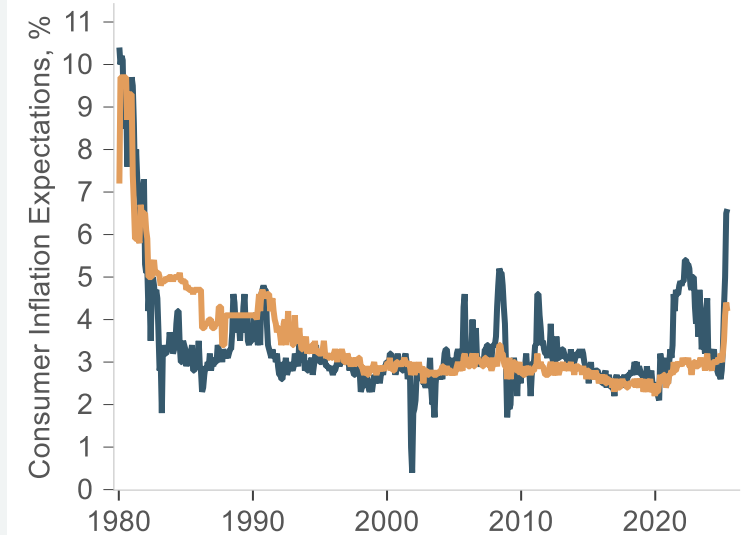
— 1-Year Swap — 5-Year Swap — 10-Year Swap
— 30-Year Swap



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. A derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In a zero coupon inflation swap, only one payment is done at maturity where one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index.

Consumer inflation expectations are rising again

— U Michigan Survey, Inflation 5 Years Ahead
— U Michigan Survey, Inflation In Next Year



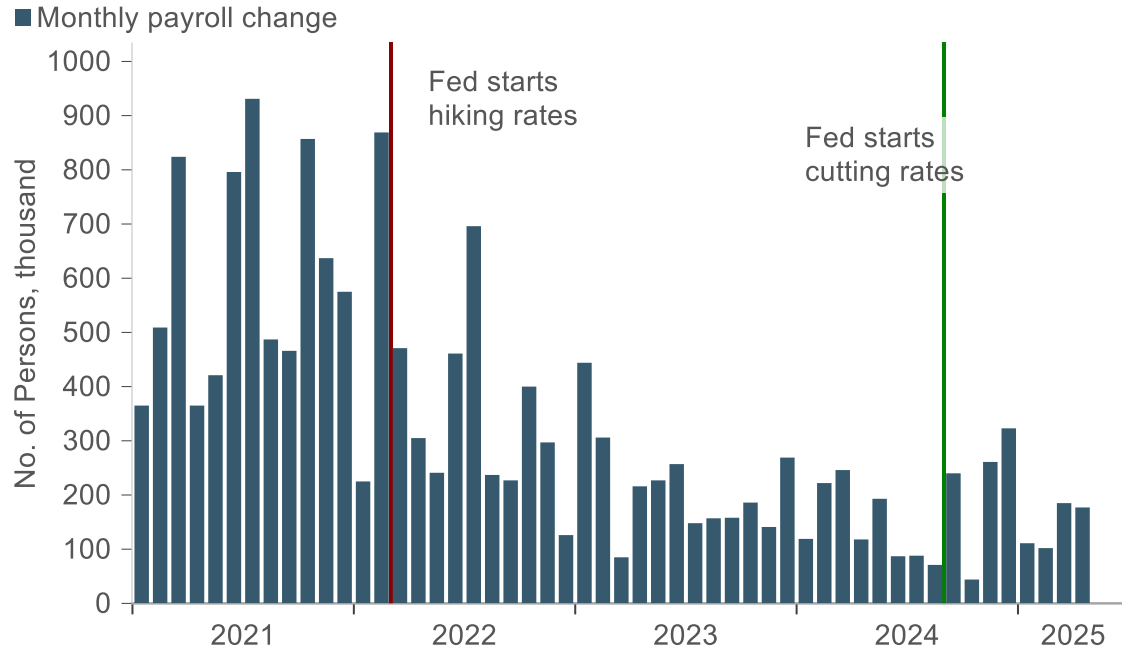
Sources: New York Life Investments Global Market Strategy, University of Michigan, Federal Reserve Bank of New York, Macrobond, June 2025.

Labor market strength has been a vital source of stability, but risks are rising

Historically, Fed cuts help stabilize the labor market but do not drive strong waves of hiring.

- Labor market stability has been paramount to our economic view; strong wages and job availability have carried consumers through an inflationary environment. Now, we see mounting risks that companies will simply pause hiring plans, possibly prompting a more marked deterioration in the labor market than would otherwise be expected in a standard easing cycle.

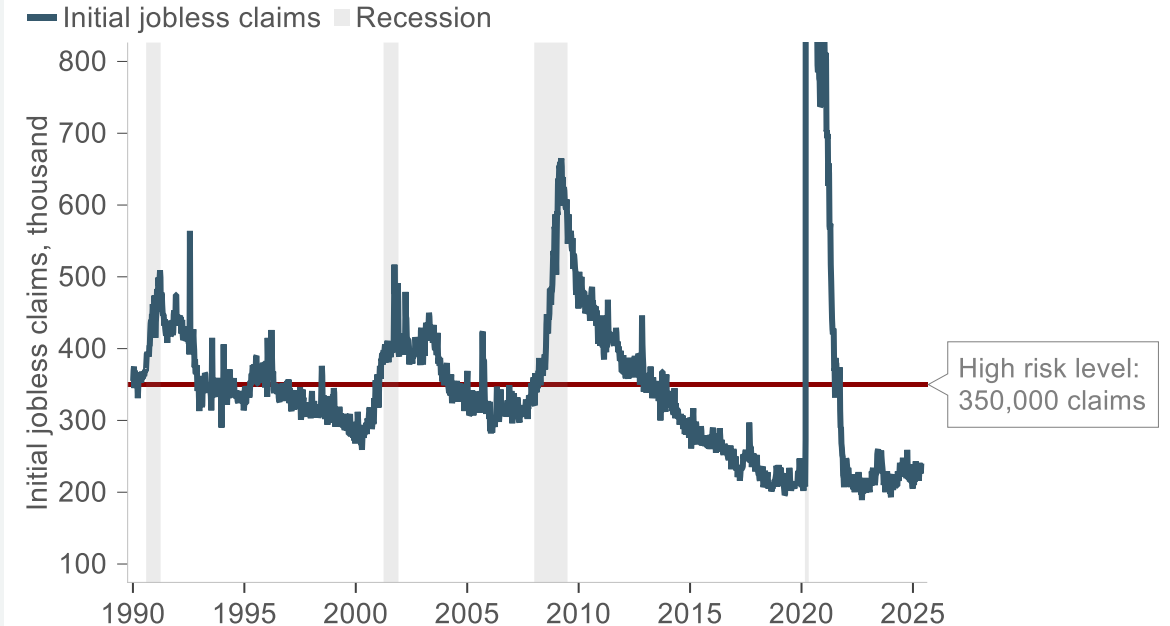
Job growth gradually decelerated during rate hikes to normalized levels



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

- Jobless claims serve as an early warning for labor market weakness, yet they have remained low throughout the Fed's hiking and cutting cycle. So far this year, weekly claims have averaged 222,000, signaling continued strength. We see 350,000 as the key threshold where investors should be wary of a labor market downturn.

Jobless claims should provide an early signal of labor market weakness



Sources: New York Life Investments Global Market Strategy, U.S. Department of Labor, NBER (National Bureau of Economic Research), Macrobond, June 2025. High risk level reflects opinions of the Global Market Strategy team.

The labor market had moved into better balance in recent quarters

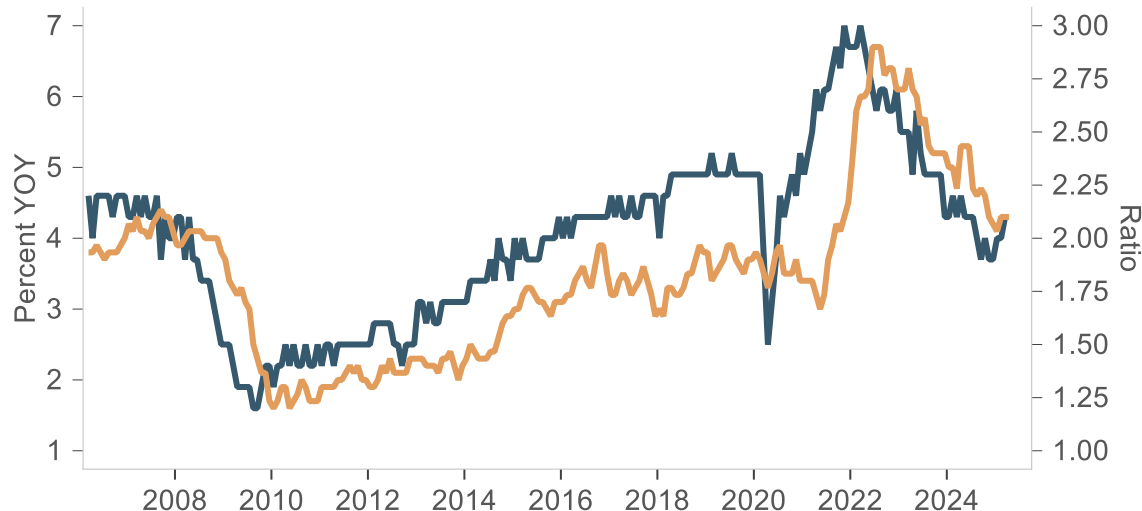
Hiring and wage growth were already slowing. Government layoffs and expected pressure on hiring are likely to test the current labor balance.

- Over the last several quarters, the labor market has moved from an overheating level into more balance. A slowing quits rate back to pre-pandemic levels suggests 1) employee confidence is waning and 2) wage growth may continue to moderate, reducing inflationary pressure. Policy uncertainty is now very likely to weigh on hiring plans, but may not spark immediate mass layoffs as companies navigate their new operating environment.

A declining quits rate signals a labor market moving toward better equilibrium, as fewer workers feel confident enough to switch jobs for higher pay

— Nominal wage growth (3-month moving average), left axis

— U.S. quits rate, right axis



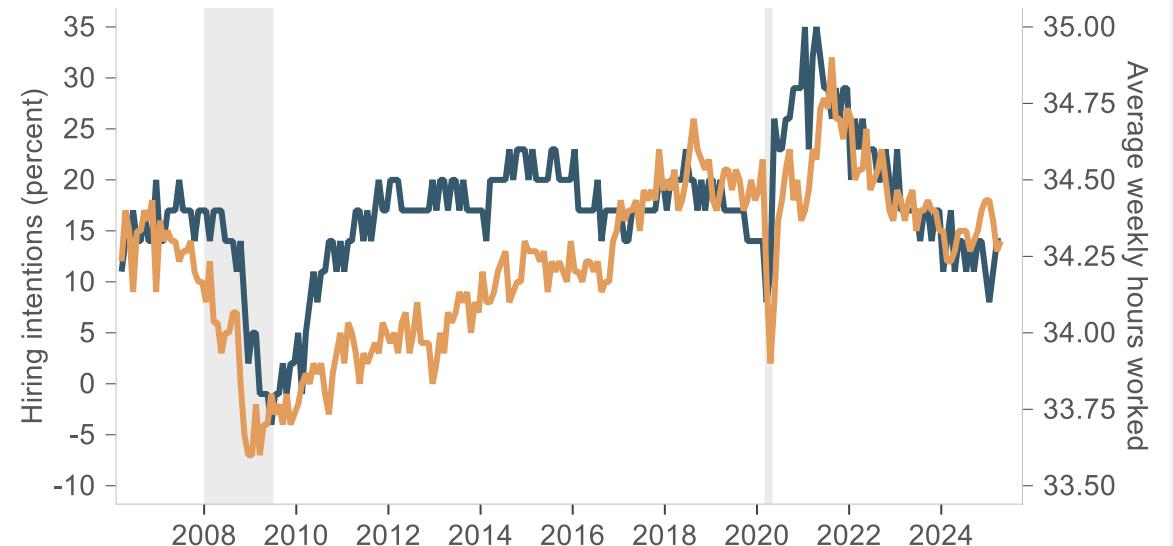
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Macrobond, June 2025.

- Small businesses comprise over 46% of private employment in the U.S. Small business hiring plans are not yet at recessionary levels, but reflect that talent is difficult to find and expensive to hire and retain.
- A decline in weekly hours worked may be an early indicator that companies are cutting back on hours to avoid layoffs.

Survey data also suggests labor market activity is moderating

— Small business hiring plans, next three months, left axis

— Average weekly hours worked, right axis



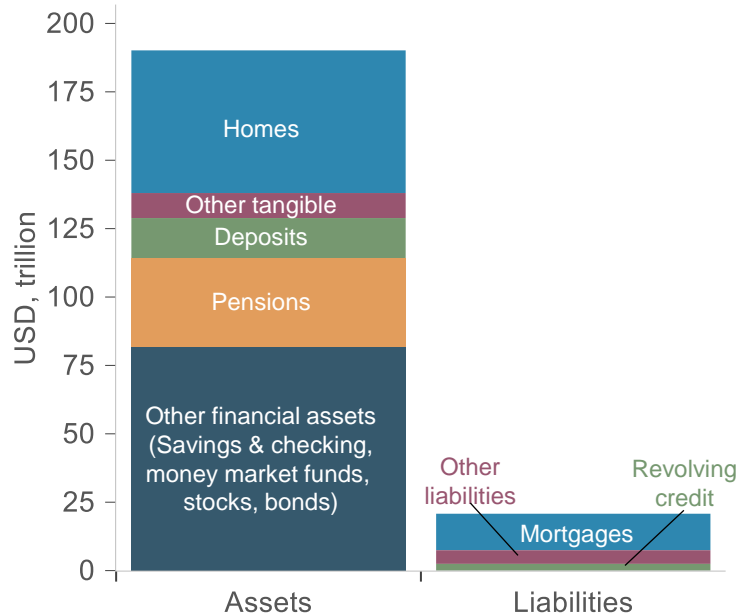
Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, June 2025.

The U.S. consumer remains remarkably resilient...

Consumer spending, primarily by high-income households, makes up the lion's share of U.S. economic growth.

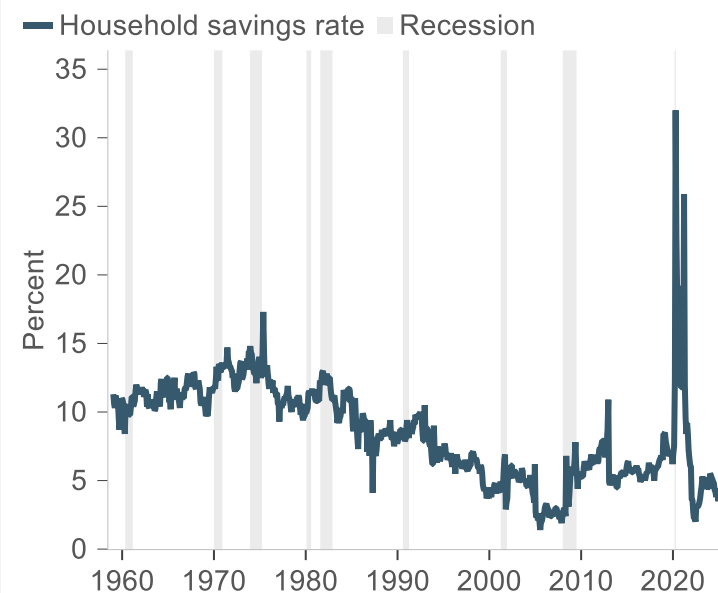
- U.S. homeowners have been almost entirely shielded from the Fed's hiking cycle. Homeowners' equity is at the highest level on record and financial assets have been bolstered by strong capital markets performance. This positive wealth effect has supported higher-income household consumption, seen in rising credit card balances (without rising default rates).
- High-income consumers make up a large portion of consumer spending. Equity market pressure may be enough to cause these consumers' confidence to wane, weighing on overall consumer activity.
- Consumers no longer have a savings backstop; "excess savings" have long been drawn down. A lower savings rate is likely a point of vulnerability in a rising inflation scenario.

Consumer balance sheets are healthy...



Sources: New York Life Investments Global Market Strategy, Federal Reserve, Macrobond, June 2025.

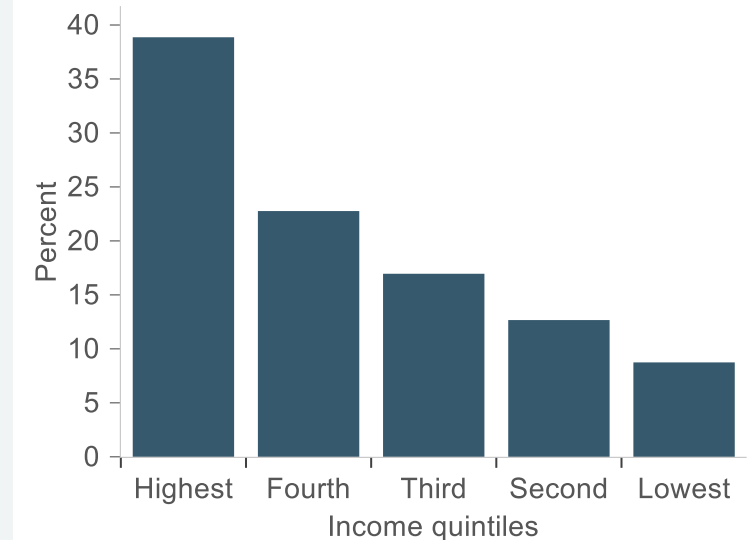
...but savings are being drawn down



Sources: New York Life Investments Global Market Strategy, National Association for Business Economics, NBER (National Bureau of Economic Research), U.S. Bureau of Economic Analysis (BEA), Macrobond, June 2025.

High-income earnings generate the majority of consumer spending

2024 consumer spending by income quartile



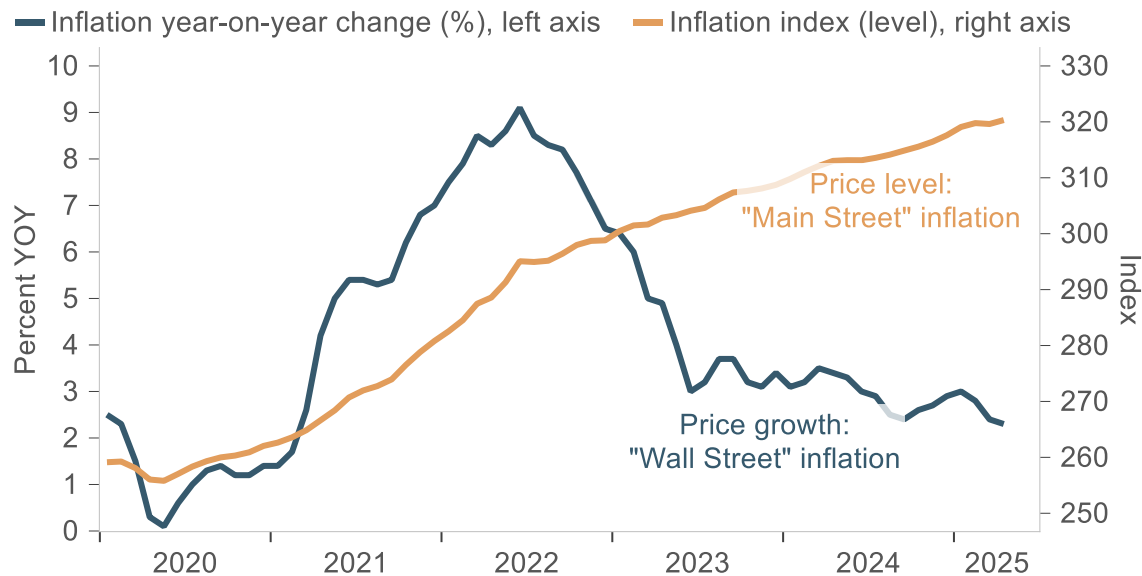
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

...but Americans have seen no price relief in four years

“Main street” inflation is squeezing consumers and likely to squeeze further, particularly younger and lower-income segments.

- Wall Street focuses on inflation's rate of change, but Main Street lives with permanently higher prices. Even though inflation growth has cooled, prices haven't fallen – they've just stopped rising as fast, keeping household budgets under strain. For consumers, it's not about "how fast" prices are rising anymore – it's that the new price plateau is significantly higher than before.

Price levels continue to inflate, which matters more than inflation pace for consumers



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Bank of America, Macrobond, June 2025. Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Core CPI excludes food and energy prices.

- Historically, consumer spending holds up until layoffs become widespread. Behavioral economics research confirms that spending patterns shift when people witness job losses within their social or professional networks. Fear of being the next person laid off erodes confidence, stoke precautionary savings, and erode consumer demand. These conditions are nowhere to be found today, suggesting this key source of consumer support is intact.

Low job loss anxiety has supported consumer spending

Survey of consumer expectations: Job separation expectations (How worried are you about losing your job?)



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, NBER (National Bureau of Economic Research), U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

Consumer credit faces risks from an otherwise healthy position on average

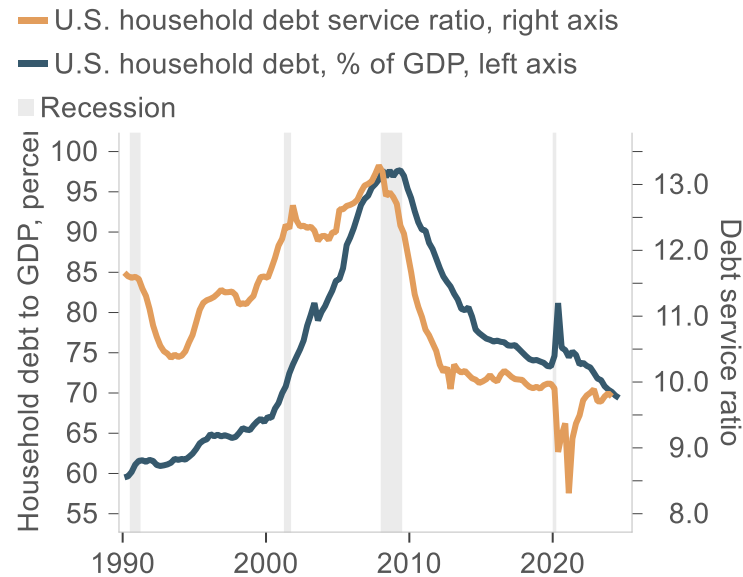
Though lower-income and younger households are struggling, we see no *systemic* signs of consumer overleverage or credit quality concerns.

American consumers are not over-leveraged. Mortgage debt service is at its easiest point on record, keeping overall debt service comfortable on aggregate.

Consumer credit growth plummeted to just below zero in January 2025, but off a historically strong base of credit growth. We are monitoring consumer credit closely: requiring credit to finance normal spending is not healthy, but nor do we want to see a collapse in consumer loan demand.

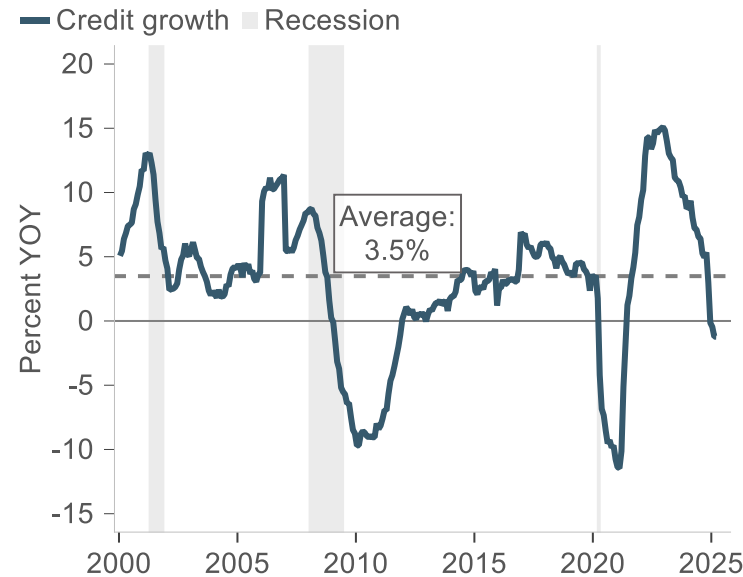
Pockets of stress, namely among younger and lower-income segments that lack a savings backstop, are likely to worsen as growth slows and inflation reaccelerates. In these groups, we see higher credit card balances and rising delinquencies in credit cards and auto loans.

The household debt imbalance that preceded the GFC is nowhere to be found



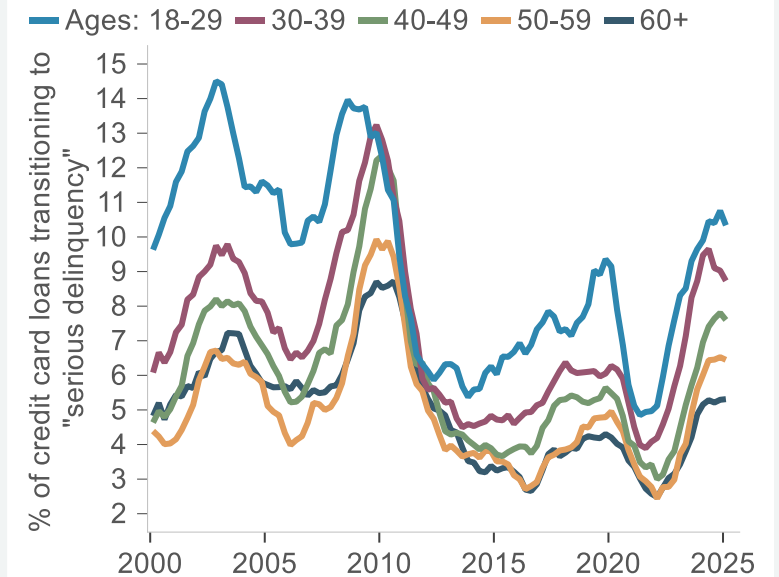
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Federal Reserve, Macrobond, June 2025.

Consumer credit growth has notably slowed off a strong base



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, June 2025.

Credit quality issues are concentrated, not broad based



Sources: New York Life Investments Global Market Strategy, Federal Reserve Bank of New York, Macrobond, June 2025.

Housing supply and affordability issues are unlikely to budge

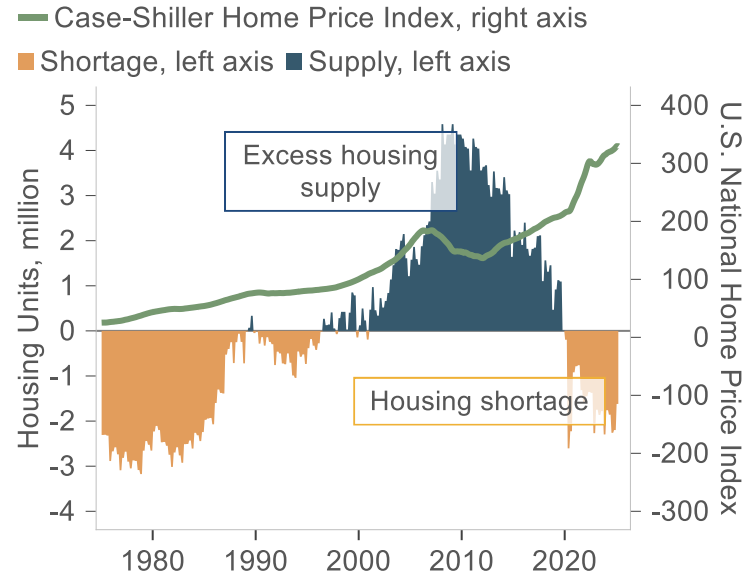
Home prices have a strong floor for the medium term – even with expectations for more volatile mortgage rates and pressure on growth.

Structural challenges in housing supply are a key reason that U.S. housing is unaffordable. Record housing construction in the past few years has not removed this backlog; we expect the shortage to continue into the medium term, putting a floor on home prices. While affordability is a structural issue for younger segments, home equity has been a boon to owners.

Accordingly, housing sales volumes are depressed. Existing homeowners are unwilling to give up a paid-off home or low mortgage rate in favor of a more expensive mortgage. Transactions are concentrated in newly built homes, where new supply exists and low maintenance costs attract new homeowners who are stretched with high mortgage rates.

It would take meaningful market shifts – greater housing supply, and/or meaningfully lower mortgage rates – for these dynamics to improve. The average effective mortgage rate is 4.0%; 75% of homes already have a mortgage rate under 5.0%. Accordingly, modest mortgage rate relief is not enough to change the incentive to buy or move homes.

The U.S. housing shortage has put a floor under prices



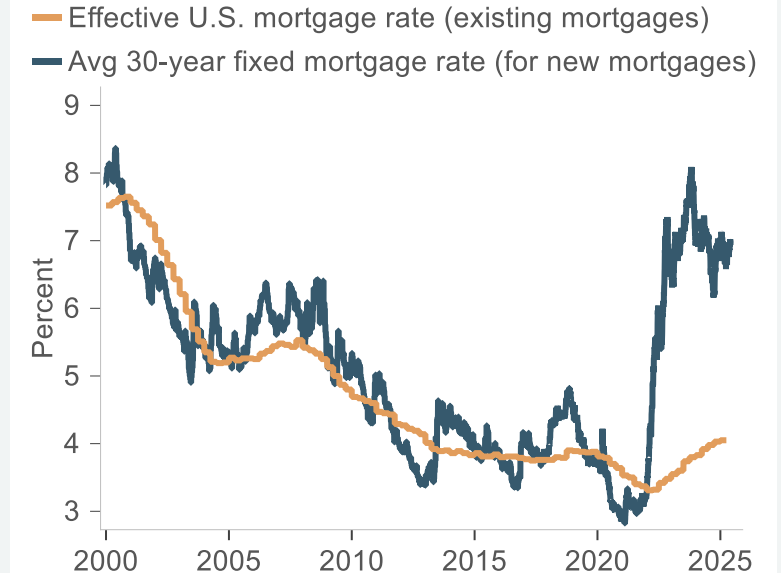
Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, U.S. Bureau of Economic Analysis (BEA), S&P Global, Macrobond, June 2025.

Existing homeowners are unwilling to give up their low mortgage rates



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, National Association of Realtors (NAR), Macrobond, June 2025.

Mortgage rates would need to plummet to incentivize housing turnover



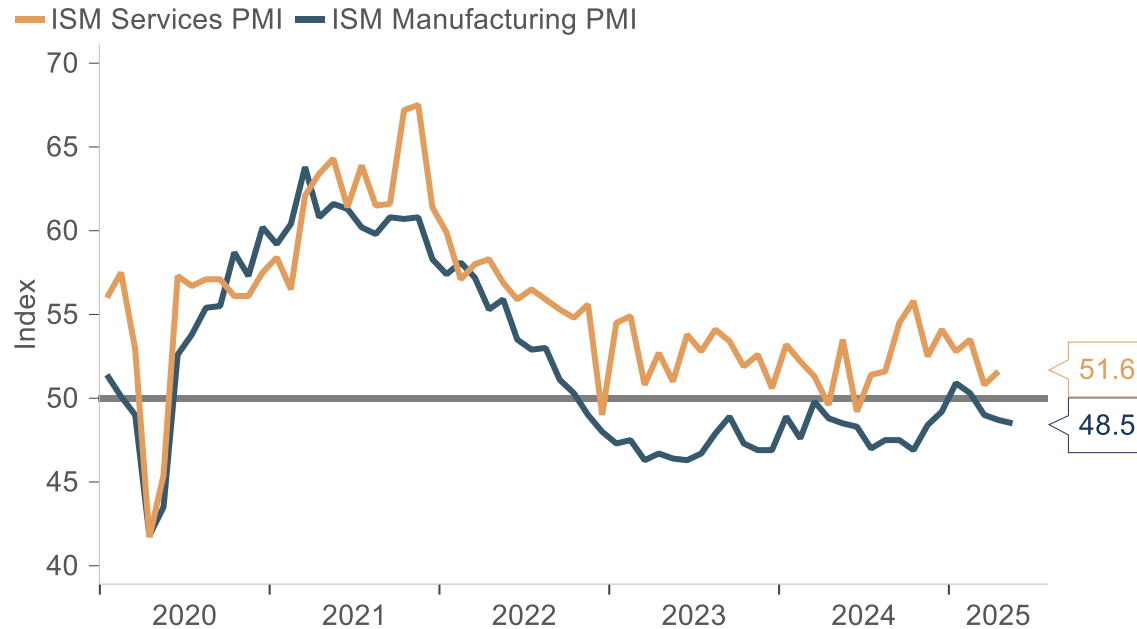
Sources: New York Life Investments Global Market Strategy, Bankrate, Macrobond, June 2025.

Business sentiment has been shaky even after a prolonged manufacturing slowdown

We will be monitoring both large and small business sentiment for impacts of tariffs, immigration policy shifts, and deregulation.

- Services sector sentiment appears to have achieved a soft landing, but it is now clear a manufacturing recession occurred in 2022-2024 as higher interest rates hit this capital-intensive sector.
- We expect sentiment in both segments to deteriorate as input costs rise and capex-related uncertainty increases.

PMI sentiment suggests we are exiting a manufacturing recession

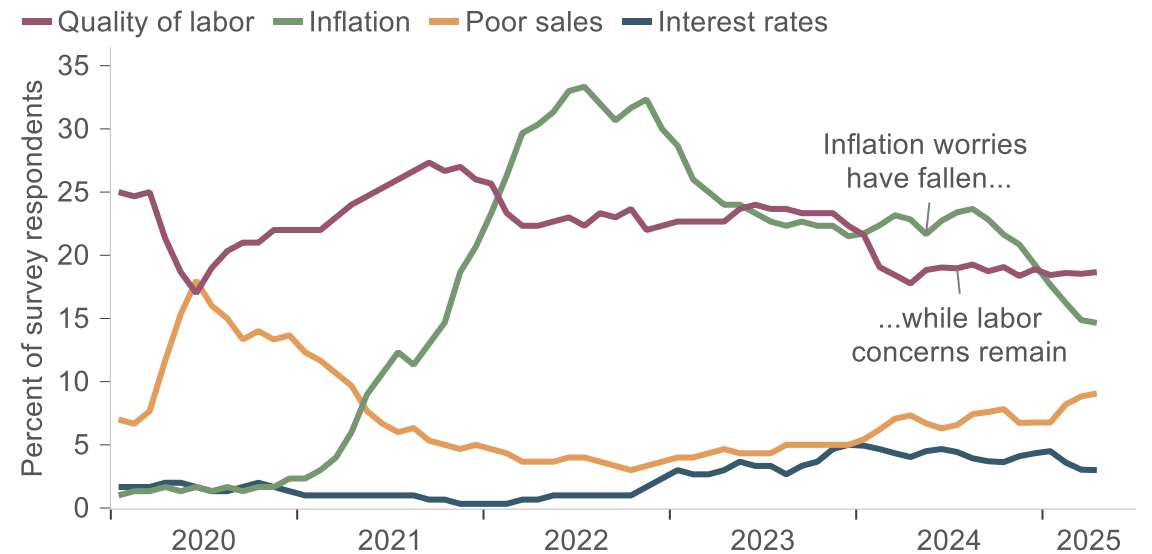


Sources: New York Life Investments Global Market Strategy, Institute for Supply Management (ISM), Macrobond, June 2025. PMI: Purchasing Managers Index, a survey-based sentiment indicator.

- Small business sentiment dramatically improved post-election and historically corresponds to consumer sentiment among Republican party supporters.
- Restrictive interest rates were not small businesses' largest problem this cycle. Interest rate cuts may not be a tailwind for sentiment, as they do not solve existing labor quality concerns and may contribute to ongoing stickiness in inflation.

Small business optimism has improved, but interest rate cuts do not solve their top problems

Survey of small businesses' "single most important problem":



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, Macrobond, June 2025. Data presented as 3-month moving averages.

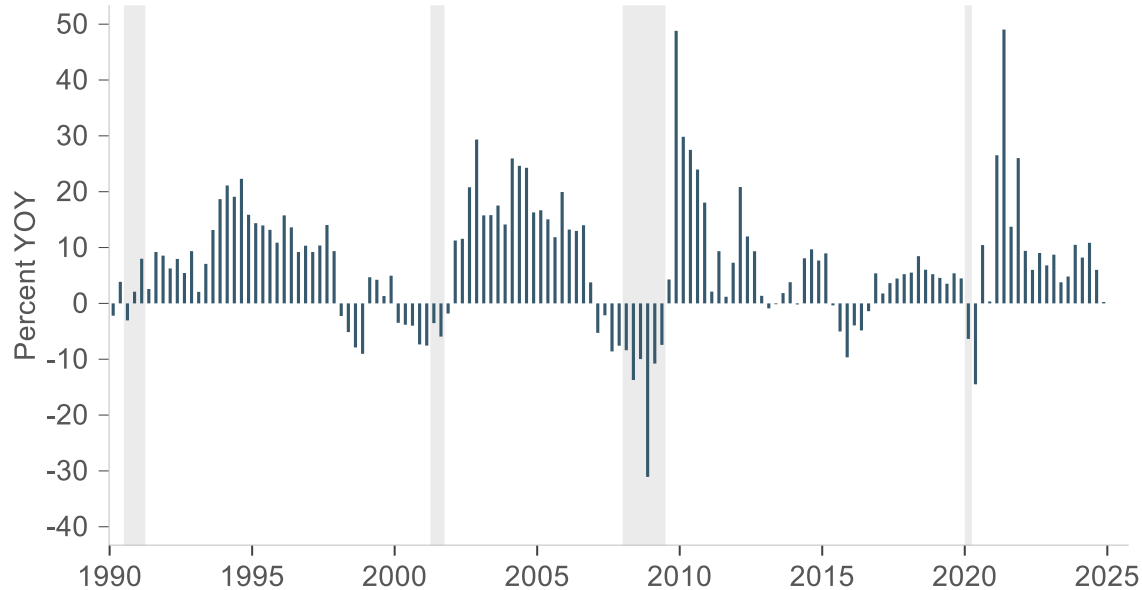
Businesses' healthy profit levels are likely now at risk

Hardy corporate profits provide a strong base, but we expect a deterioration as policy uncertainty, lower growth, and higher inflation hit margins.

- Today's corporate profit margins have been largely resilient, making near-term mass layoffs unlikely.
- However, as higher input costs and lower growth pressure margins, and as uncertainty affects business confidence in its investment and hiring outlooks, we expect profit growth to decelerate.

Hardy corporate profit growth is a clear sign of overall business health

■ Corporate profit growth ■ Recession

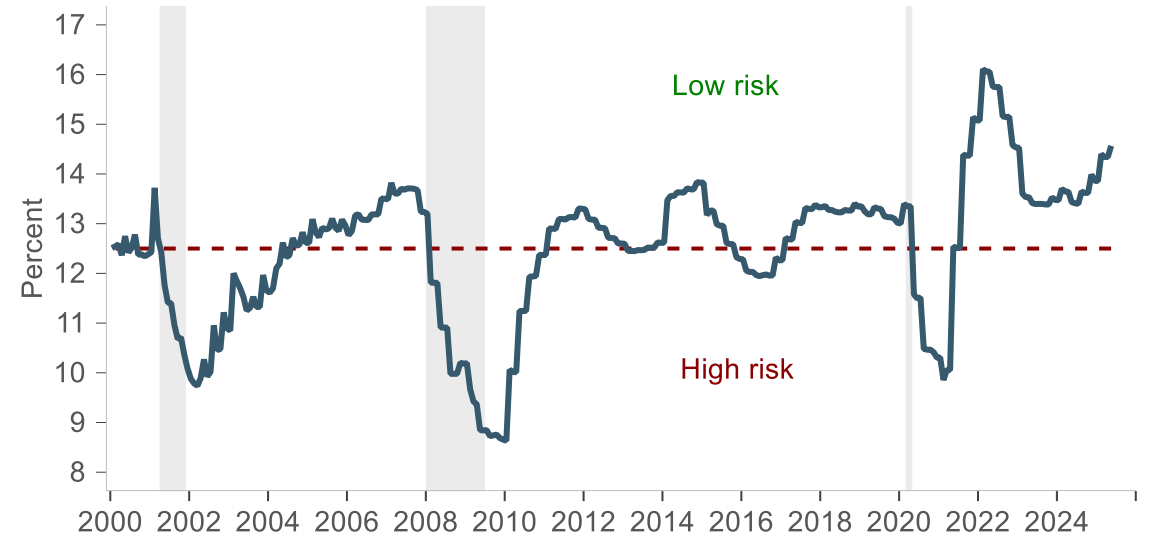


Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, June 2025.

- Companies have been maintaining healthy margins. Today, S&P 500 operating margins are well above 12.5%, the level where falling margins have historically become a concern. Technology-driven productivity improvements could support margin expansion in the medium term, but we believe consumer spending and inflation are likely to dominate the near-term story.

Despite slowing growth and high interest rates, companies have been maintaining stable margins

— S&P 500 operating margin - - Risk level ■ Recession



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Bloomberg, Macrobond, June 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Past performance is not a guarantee of future results. It is not possible to invest in an index.

Business input costs are not out of the woods

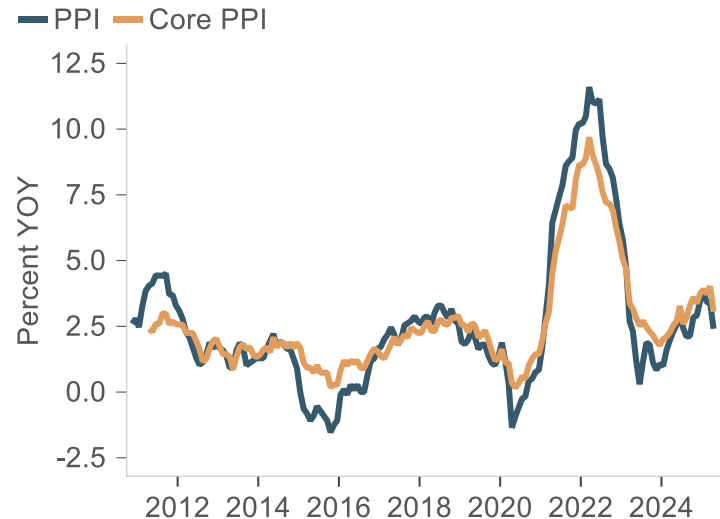
Employment costs are falling, but sticky input prices – even before tariffs – make it unlikely businesses will be lowering prices for their customers.

Producer prices rose sharply during the pandemic, which U.S. corporations successfully passed onto customers. Now, after some relief, input prices are moving higher again, driven by services costs such as traveler accommodation, transport costs, and retailing costs. We expect this trend to accelerate, driven by tariffs.

The cost to hire and retain employees has normalized from the historically-high levels seen in response to the pandemic. As wage growth slows, we see the Employment Cost Index come down, reflecting less competition for talent and weakening bargaining power of employees.

Energy prices, reflected in the broad producer price index (PPI) visualized to the left, are historically volatile. In addition to demand-side disruptions from the pandemic, supply-side disruptions from the war in Ukraine have driven high volatility. A path to peace in Ukraine could sustain recent stability.

Producer Price Index points to a gradual reacceleration in input costs, now likely to accelerate



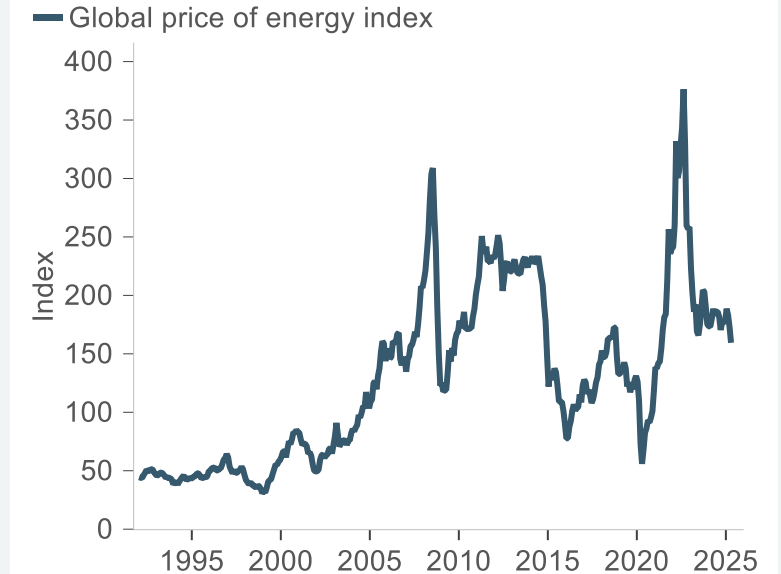
Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025. Core Producer Price Index (PPI): total less food and energy.

The decline in businesses' employment costs corresponds to slowing real wages



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

Energy costs have normalized after reaching new highs



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, June 2025.

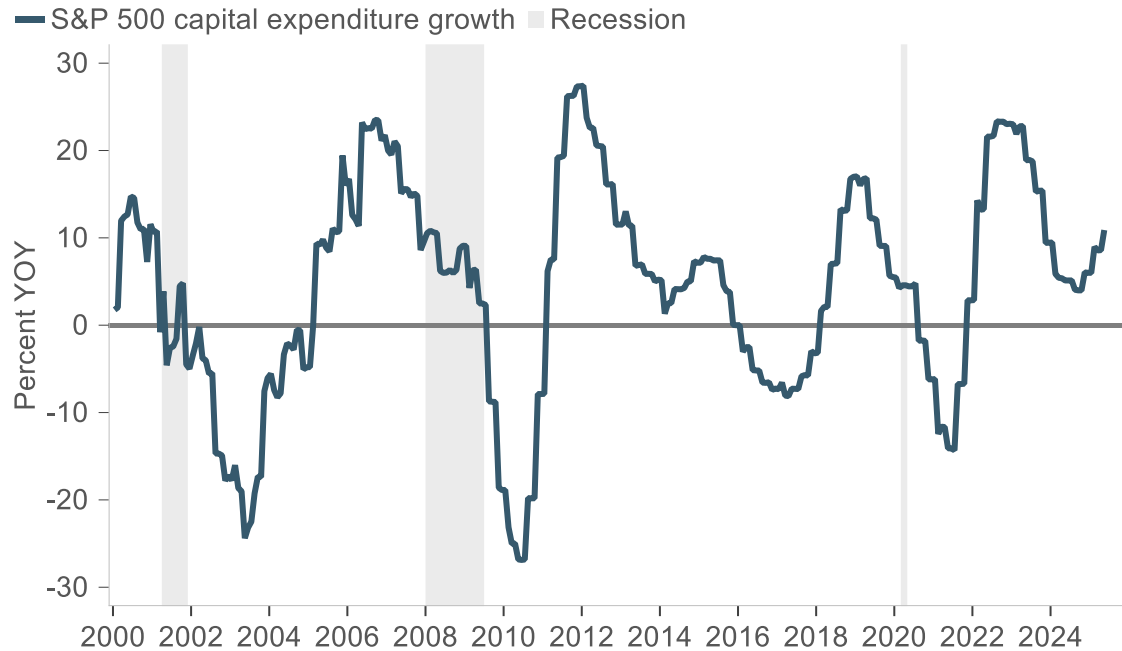
The business investment environment faces major headwinds

Tariff-driven uncertainty is likely to prompt a pause in investment decisions – replacing the AI-led investment euphoria of the post-pandemic era.

- Tariffs have turned our outlook for capital expenditures on their head. Where investments in AI infrastructure by the technology, communications, and utilities sectors had boosted our outlook, we now expect most companies to at least pause new capex plans as they navigate the input cost, interest rate, and general investment environment.

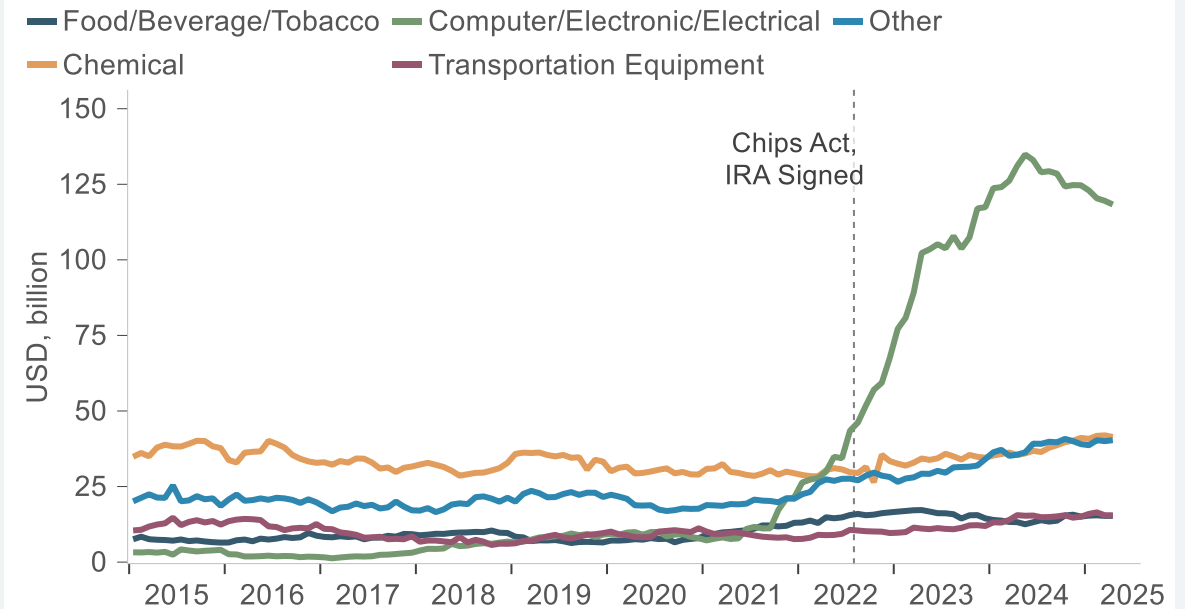
- The bright spot we'll be watching: tariffs may foster investment in areas that had already seen strong momentum, including digital infrastructure. The combination of government spending in the semiconductor supply chain, coupled with strong corporate and consumer interest in AI, creates a solid foundation for sustained growth even as CHIPS Act allocations wind down.

A solid capex outlook has now been replaced by systemic uncertainty



Manufacturing construction is expected to drive manufacturing activity

Real manufacturing construction spending

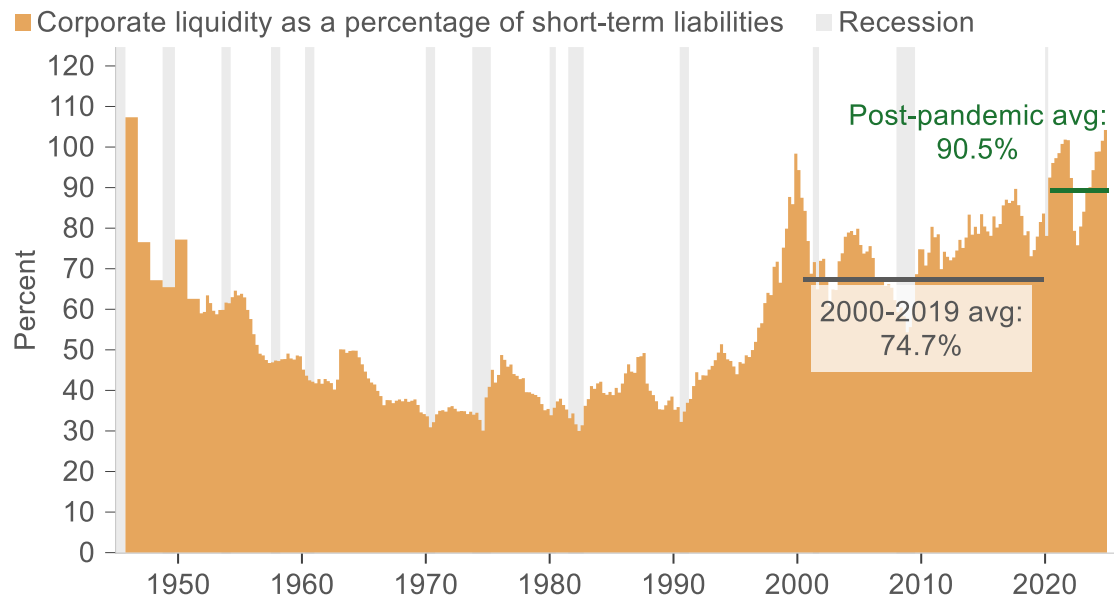


Business debt levels and debt service show no cause for concern

Even as ultra-cheap pandemic era financing rolls off, corporate capital structures look healthy.

- Large U.S. corporations are very well capitalized, able to cover over 90% of their short-term liabilities with cash. This cash buffer was initially built with the help of very cheap financing in the pandemic era, but companies have been able to maintain this buffer even as financing costs rose.

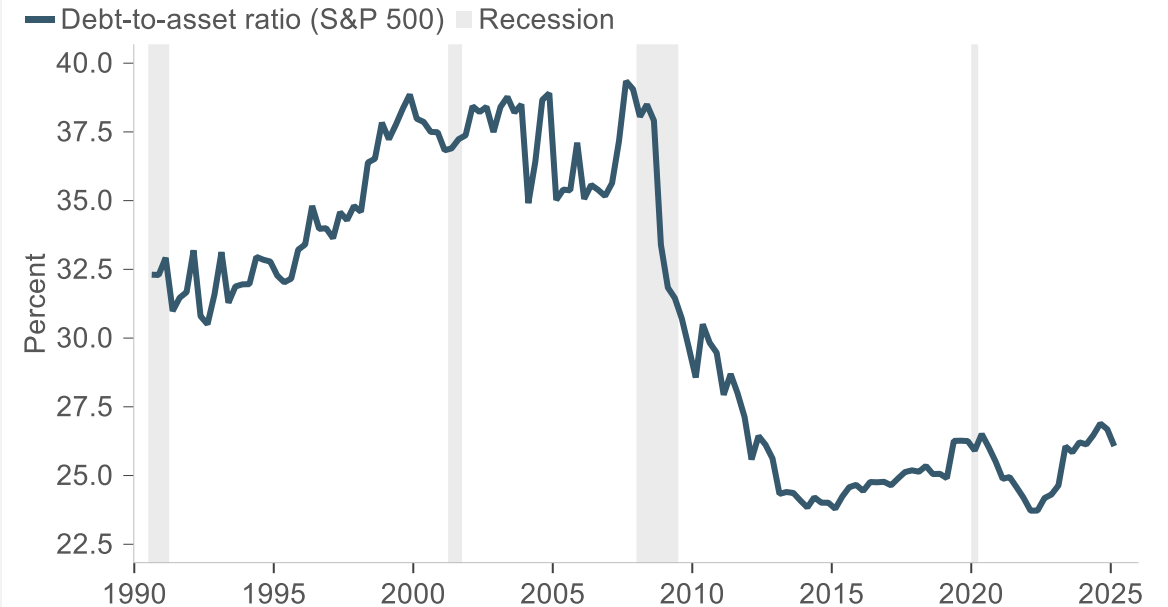
Large companies with access to public capital markets have maintained strong short-term liability coverage



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, June 2025.

- Overall corporate debt-to-asset levels are near 30-year lows. Rather than accrue debt to get through the pandemic, U.S. companies benefitted from an easy financing environment and passed through inflation to consumers, allowing these firms to emerge from the pandemic with an improved capital structure.

We see no structural debt imbalance amongst listed corporations



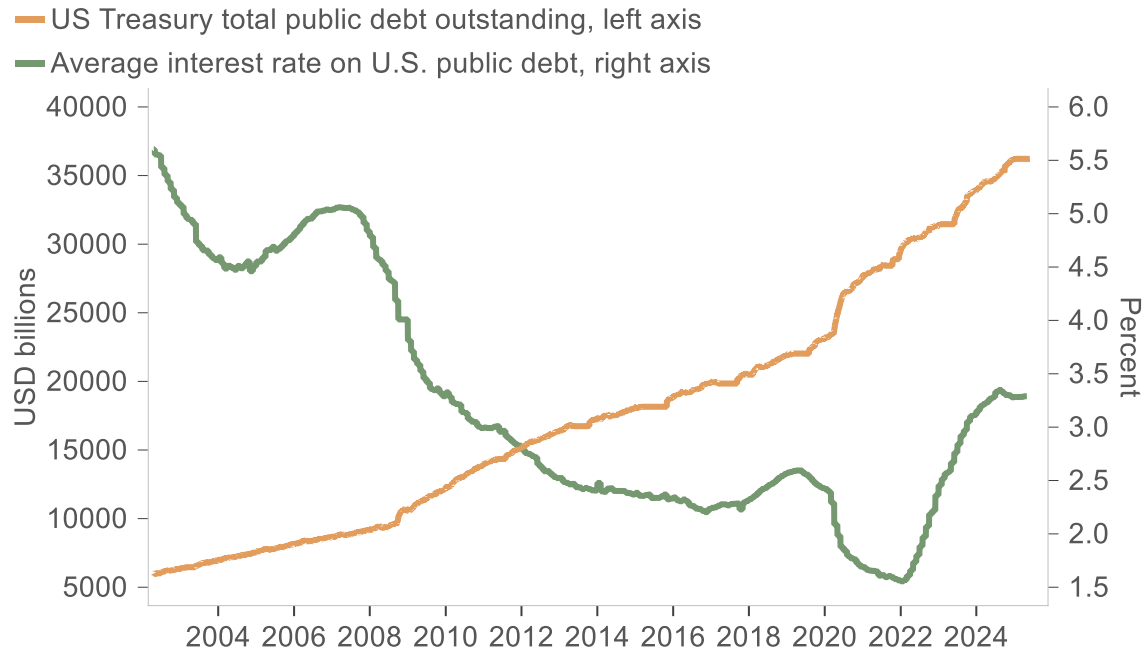
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Standard and Poor's, Macrobond, June 2025. The S&P 500 Index tracks the performance of 500 large cap U.S. companies. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

The fiscal outlook remains challenging

The combination of higher spending rates and higher interest rates have created a greater interest burden on federal spending.

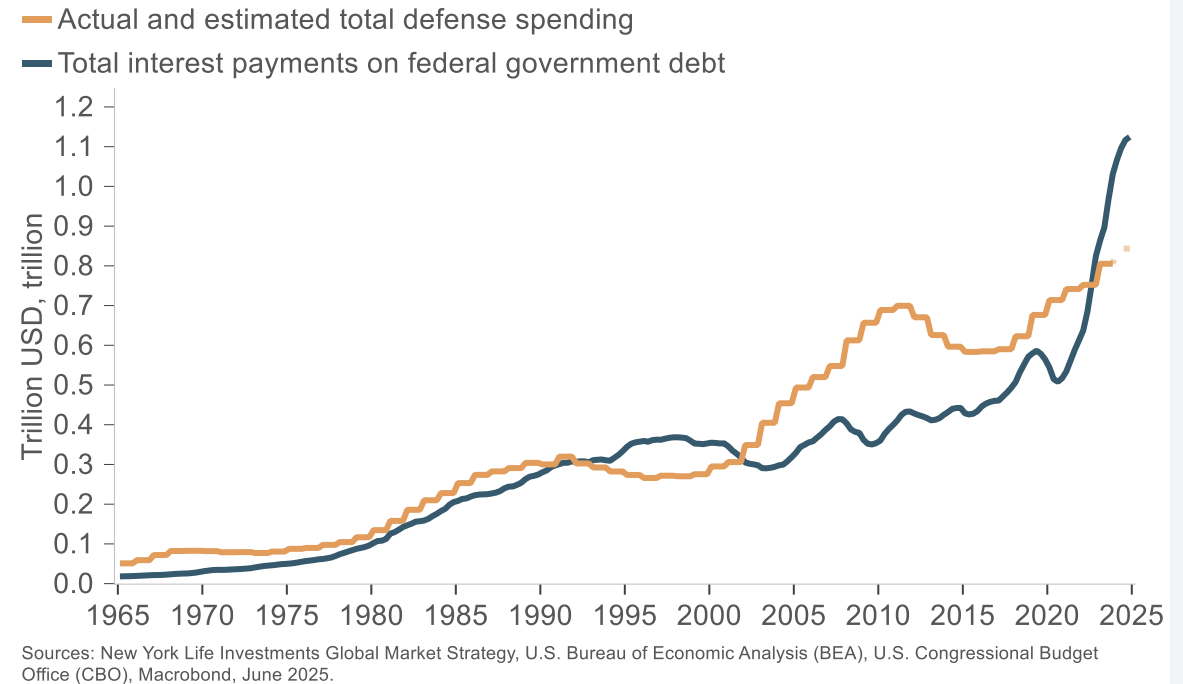
- The average interest rate on U.S. public debt has risen to a decade high, all while U.S. government spending has ballooned. Treasury rates, which are set by the market, are impacted by the supply and demand for Treasuries. This means that higher U.S. government issuance – including issuance required to finance existing debt – impacts rates, all else equal.

U.S. debt levels - and the average price paid on that debt - are on the rise



- Between higher interest rates and growing debt levels, total interest payments have risen rapidly and now exceed the amount spent on the (previously) largest portion of the U.S. federal budget: defense. As interest payments mount, the U.S. may be forced to reduce its spending (fiscal austerity) or raise revenue (taxes) to pay down debt, or pursue higher growth (and higher inflation) policies to reduce debt burden in real terms.

U.S. interest payments on its public debt are outpacing defense spending



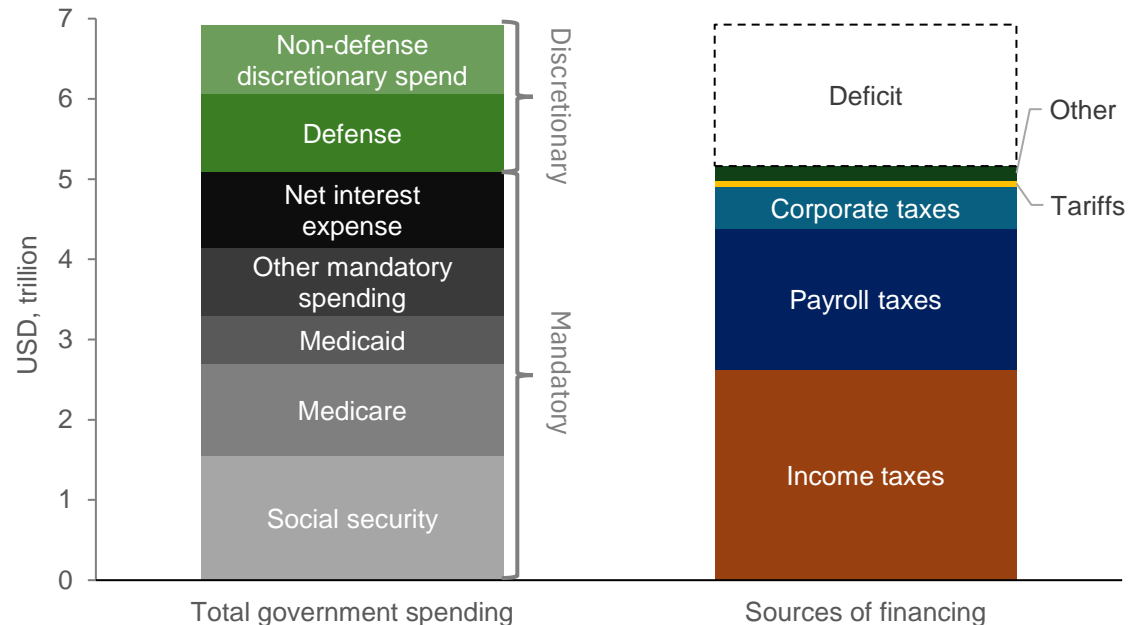
The growing budget deficit could pull debt sustainability concerns forward

Though household and corporate balance sheets are stable, the U.S. government balance sheet shows a severe imbalance.

- The U.S. budget deficit is the difference between how much money the government makes and how much it spends. The U.S. Treasury makes up the difference by issuing Treasury bills and bonds in the open market to raise the necessary cash. Mandatory spending (vs. discretionary) accounts for most of government spending, while income and payroll taxes serve as the primary source of federal revenue.

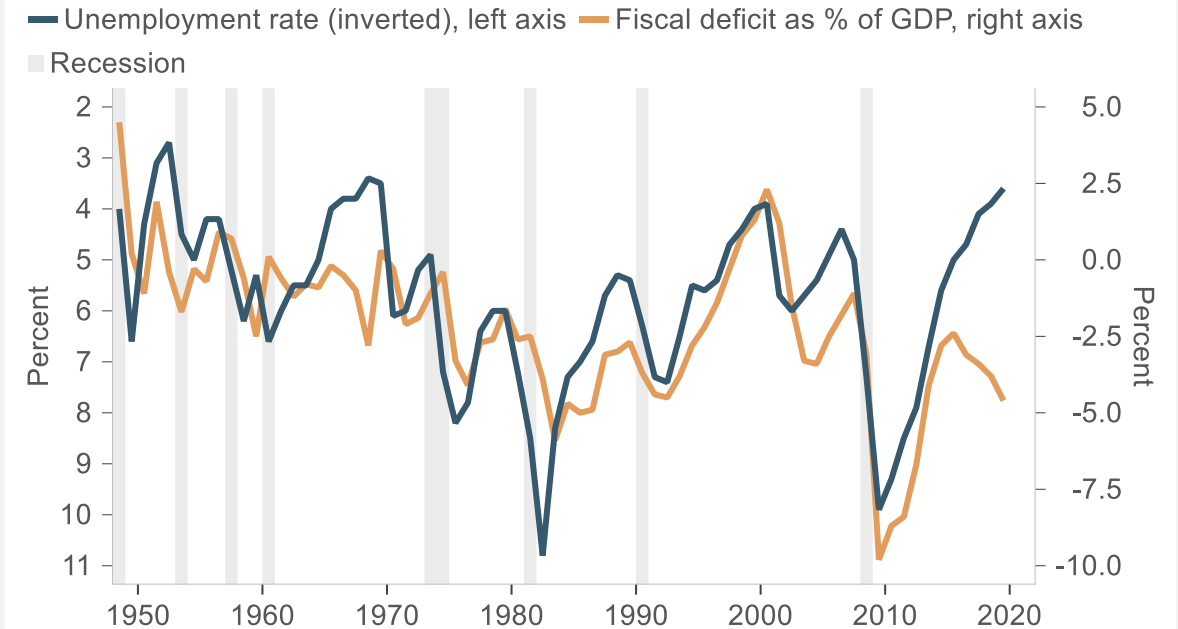
- In a typical cycle, the deficit increases alongside an increase in the unemployment rate. This is because U.S. fiscal spending is typically countercyclical, meaning that as the economy slows, the government spends more to support both households and businesses. Pandemic-related spending widened the deficit significantly. It's possible the level of federal deficits will constrain Trump's policy agenda in the coming years.

The 2025 budget is expected to extend the deficit



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), Macrobond, May 2025.

Aggressive fiscal expansion at this point in the business cycle is unusual



Sources: New York Life Investments Global Market Strategy, U.S. Office of Management & Budget, U.S. Bureau of Labor Statistics (BLS), NBER (National Bureau of Economic Research), Macrobond, June 2025.

3 International economic & market outlook

Global cycle

- [De-synchronized global growth](#)
- [Euro area](#)
- [Japan](#)
- [China](#)
- [Emerging markets ex-China](#)

Commodities & alternative currencies

- [Energy](#)
- [Metals and agriculture](#)
- [Gold and Bitcoin](#)

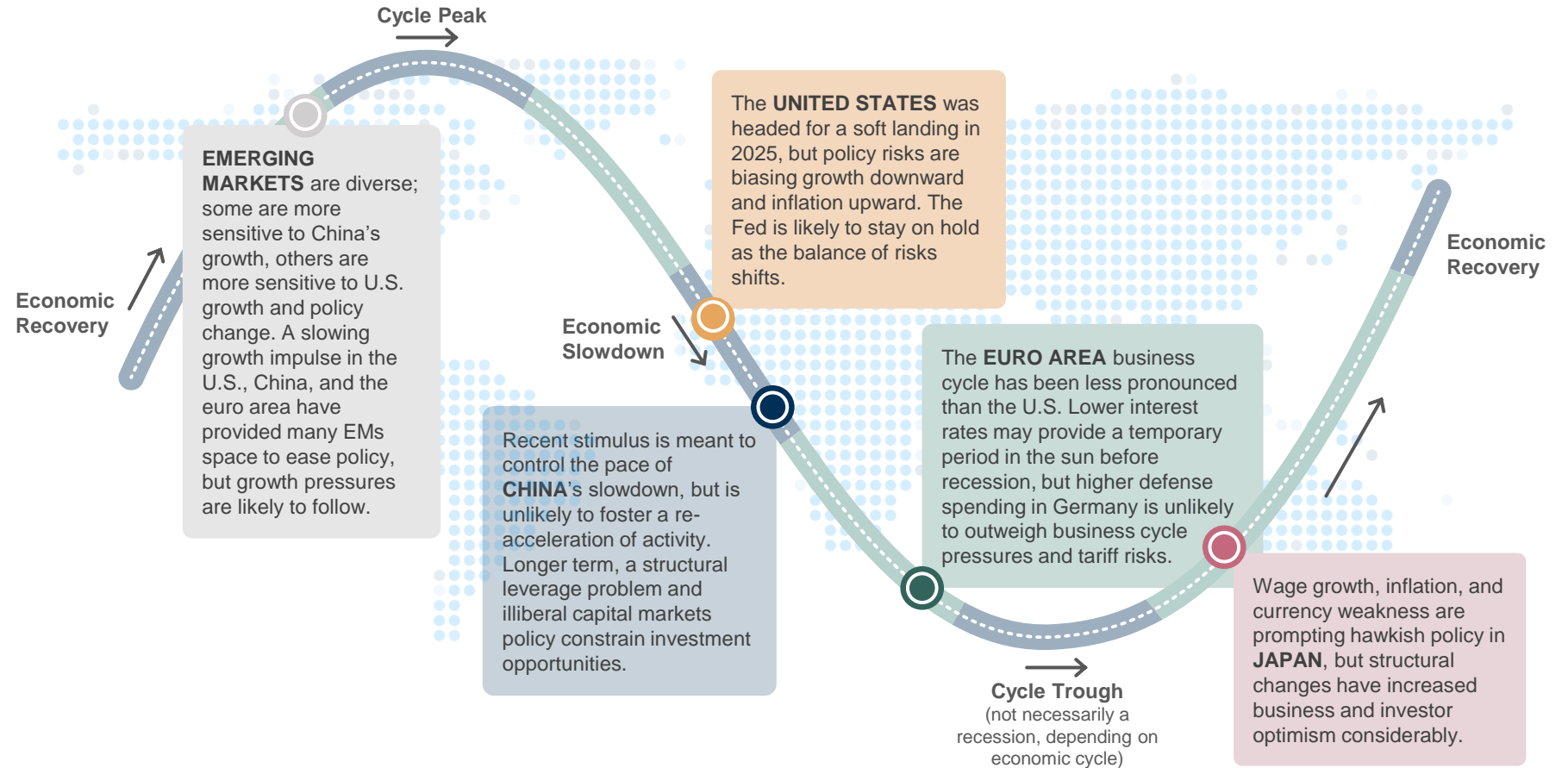
U.S. dollar

- [Historical view](#)
- ["Dollar Smile": tactical dollar view](#)
- [What it takes to be a reserve currency](#)

Where are major economies in their economic cycles?

- After years of synchronized global stimulus in the post-pandemic period, growth across major economies is now diverging.
- In the U.S., shifting policy is likely to drive a 6–12 month adjustment period for both the economy and markets. In Europe, increased German defense spending has supported sentiment but is unlikely to change the near-term credit outlook. Meanwhile, Japan and China are managing structural changes that will shape their growth and investment prospects.
- Rising trade barriers pose a risk to global growth—especially in the U.S., where they could also push inflation higher. If similar policies are adopted by key trading partners, these pressures could become more widespread. We're also watching for signs that policy-driven changes in U.S. consumer behavior could slow global demand.

Major countries and regions face disharmonious economic growth dynamics and policy approaches



Sources: New York Life Investments Global Market Strategy, June 2025. For illustrative purposes only. "EM" is short for emerging markets. *The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle- A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

Euro area

Europe's growth is susceptible to U.S. trade risks or a global slowdown. But investor appetite for ex-U.S. assets is rising; Europe may benefit.

- In the past year, euro area domestic demand has flatlined (**left chart**) and inflation has moved lower (**middle chart**). In response, the ECB began steadily cutting interest rates in 2024. As a result, credit conditions improved, and business loan demand moved higher (**right chart**).
- These domestic conditions are being disrupted by U.S. tariff policy. Key concerns include Europe's vulnerability to a global slowdown and the impact that a U.S.-China escalation may have; the U.S. and China are Europe's two largest markets.

- Before the tariffs, we expected growth to slow to near 1.0% in the euro area. Now, rising uncertainty may lead European businesses to postpone their investment and hiring plans.
- Other geopolitical developments, such as resolution in the Russia-Ukraine war, stabler energy prices, and pressure to spend more on defense and infrastructure may create opportunities for the European economy. Already, we see investors considering higher exposure to European assets as a means of geographic diversification against U.S. policy uncertainty.

Domestic demand has flatlined

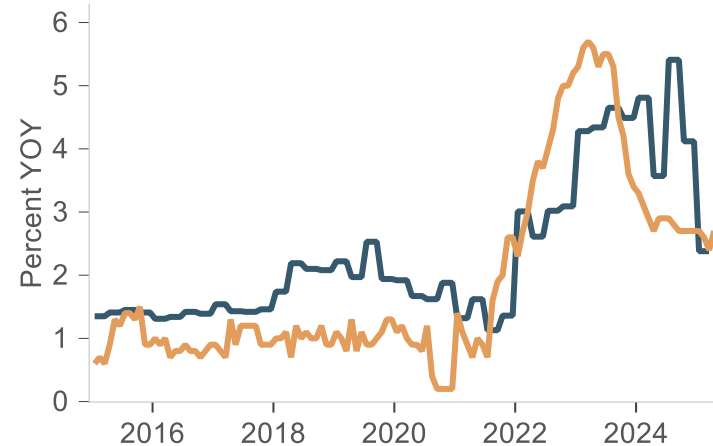
— Euro area domestic demand ex-inventories



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, June 2025.

Euro area core inflation is moving lower, but wages remain sticky

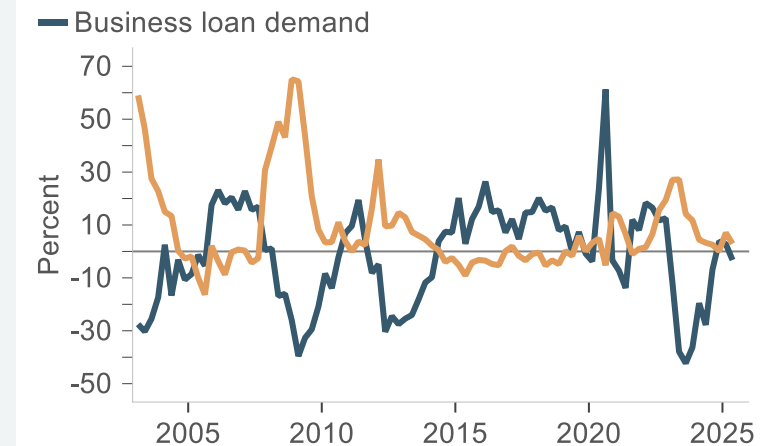
— Core inflation — Negotiated wages



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Eurostat, Macrobond, June 2025.

Normalizing policy rates have contributed to improving credit standards and loan demand

— Changes in credit standards for businesses — Business loan demand



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, June 2025.

TAKEAWAY: We expect tepid euro area growth because of timid consumption, low consumer confidence, and increasing challenges related to global trade and investment. That said, a consistent interest rate cutting cycle and structural economic changes may create investment opportunities.

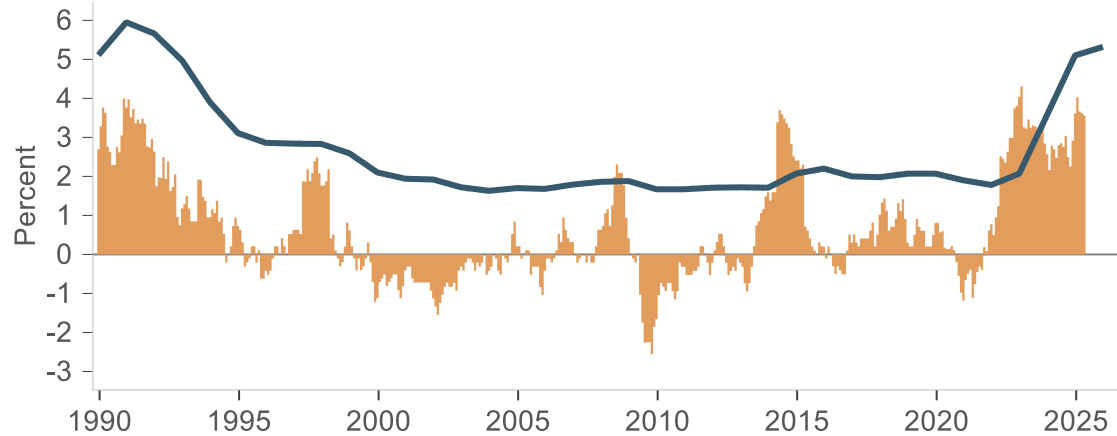
Japan

Trade disruptions likely put the Bank of Japan on pause for the rest of this year.

- While most global central banks were raising rates in the last two years, the Bank of Japan maintained accommodative monetary policy. This has now reversed. A weaker yen spurred import-price inflation, contributing to higher wages for the first time in many years (**left chart**).
- In response, the Bank of Japan (BOJ) loosened yield curve control, ended negative interest rate policy in April 2024, and hiked rates to 0.5% in Jan 2025. Market financial conditions, including equity market valuations, have tightened considerably in response.

Negotiations lead to steepest wage increases in 30 years

- Spring wage negotiations, salary increment, weighted average
- Headline consumer price index (CPI)

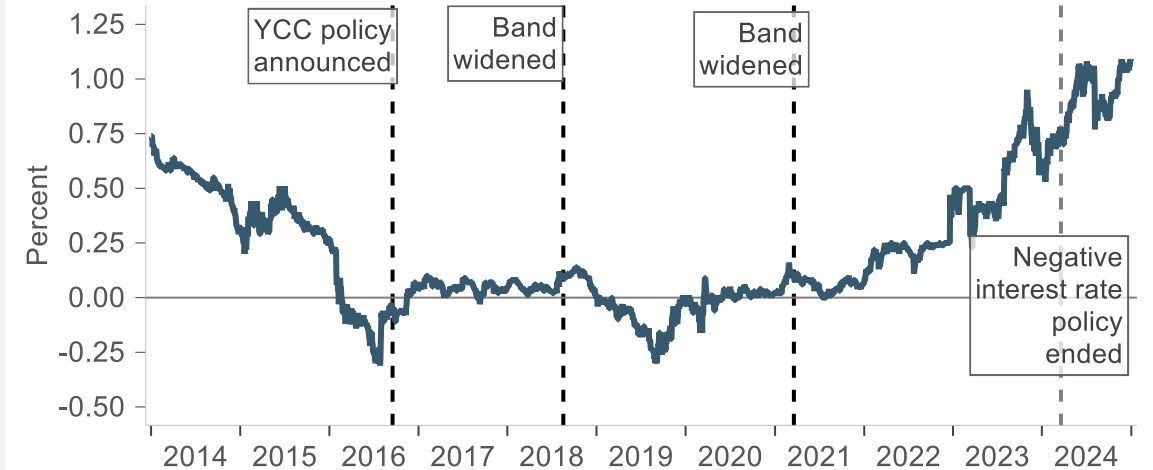


Sources: New York Life Investments Global Market Strategy, Japanese Trade Union Confederation (RENGO), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond, June 2025.

- Due to global economic uncertainty and a stronger yen, we believe the Bank of Japan will now stay on pause for the remainder of the year. Rising long-dated bond yields may further pressure BOJ policy, possibly creating a case for renewed JGB purchases.
- Meanwhile, the government and private sector have made meaningful changes to promote competitiveness, improving global corporate and investor expectations for Japan's long-term growth and investment attractiveness.

Higher inflation has led to loosening yield curve control and an end to negative interest rate policy

- Yield on 10-year Japanese government bonds



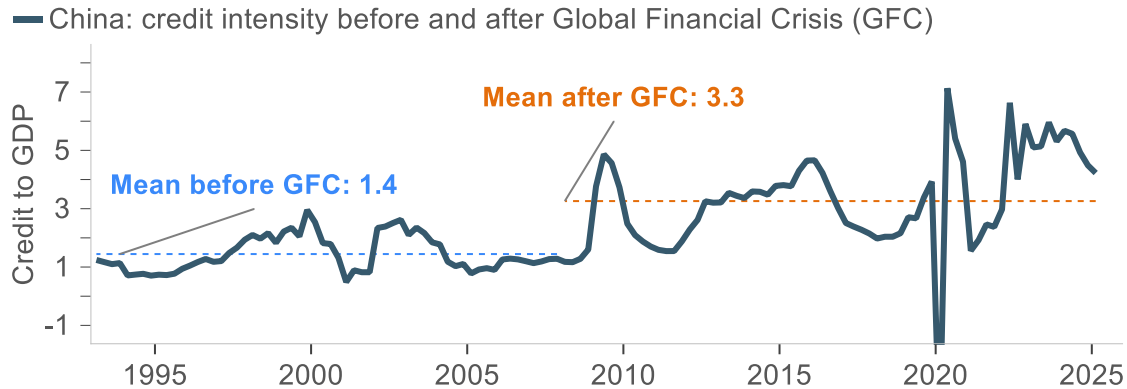
Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, June 2025.

TAKEAWAY: We believe Japan's re-orientation towards global competitiveness may persist, potentially improving productivity and economic activity. We are closely watching recent developments in the semiconductor supply chain, which could position Japan as an incremental chip manufacturing location, and therefore increase capital investment.

China's structural story: a structural deceleration in growth

A deleveraging problem and illiberal capital markets policy are likely to constrain investment opportunities in China over the medium term.

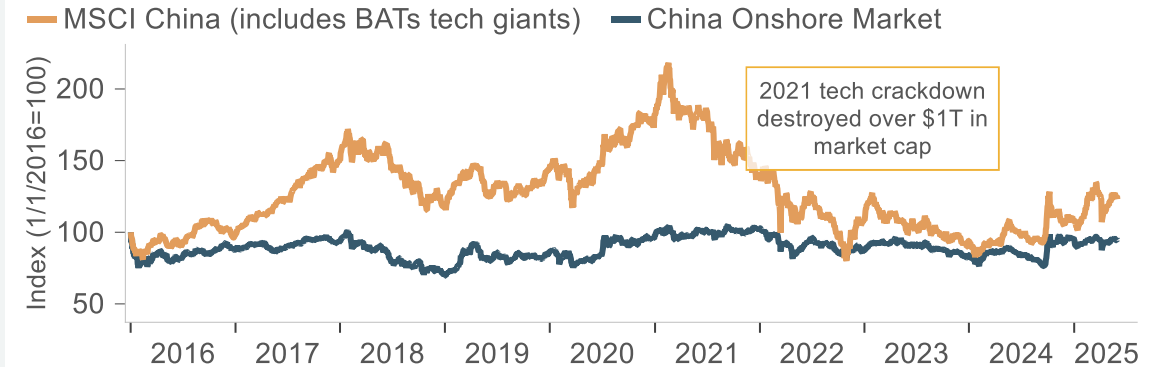
China's decades of high growth have been fueled by high leverage



Sources: New York Life Investments Global Market Strategy, People's Bank of China (PBoC), BIS (The Bank for International Settlements), China National Bureau of Statistics (NBS), Macrobond, June 2025. GDP: Nominal.

- In the past several decades, credit expansion— through formal banking, shadow banking, infrastructure, and real estate – has been utilized to mitigate cyclical slowdowns, with diminishing returns (**left chart**).
- Recent years' policies seem to acknowledge that the high-leverage model is unsustainable: shadow lending had slowed, Chinese real estate giant Evergrande was allowed to fail, and local and central government growth targets have been periodically relaxed.
- On a structural basis China also needs to cope with its export-led growth model and has signaled its intent to foster greater domestic consumption. Foreign portfolio inflows could ease this transition away from export-led inflows, but we see little impulse to liberalize markets.

China's regulation has hampered value creation in equities



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, MSCI, Macrobond, June 2025. BATs: Chinese tech giants listed outside China's onshore markets: Baidu, Alibaba, Tencent. Onshore markets represented by Shanghai Composite, comprising all A and B shares listed in Shanghai. MSCI China: large and mid-cap representation across Shanghai and Shenzhen.

- China's closely regulated onshore equity markets do not include exposure to major tech firms, including the BATs: Baidu, Alibaba, and Tencent, which operate within China but are listed primarily in the U.S. (**right chart**). Lack of onshore exposure to these names enabled China's infamous tech crackdown of 2021, where harsh new regulations and fines against these firms destroyed over \$1T in market cap for U.S.-listed China indexes.
- While China made decades of great strides to liberalize its capital markets, recent years have seen a slew of anti-investor regulation that has harmed market confidence in the country.
- Other structural issues on our radar: demographics, productivity, intellectual property protection.

TAKEAWAY: China remains the world's #2 economy and trade power, and in this sense continues to be a “must have” in a diversified international allocation. However, the country's proclivity for avoiding economic growth slowdowns with the use of leverage, paired with wavering investor-friendly policies, make us cautious on the medium-term outlook.

China's cyclical story: managing internal and external pressures

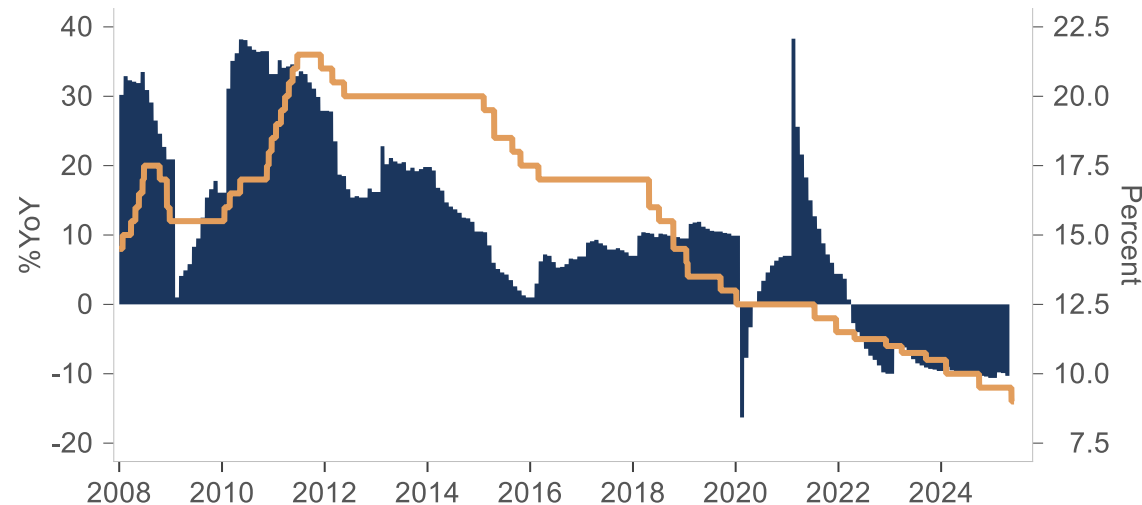
China's stimulus is not meant to spark an economic acceleration, possibly to the detriment of key emerging markets trading partners.

- This cycle and on a structural basis, China uses monetary policy to counterbalance the real estate market, in part by reducing required reserve holdings by banks to encourage lending when real estate is in contraction (**left chart**). Given the extent of real estate recession in China, we believe this stimulus is meant to control the extent of total economic slowdown rather than foster an outright economic acceleration. In 2025 Chinese growth is expected to slow from 5.0% YoY to 4.5%.

China is countering the real estate crash with easier monetary policy

— Reserve requirement ratio, large banks, right axis

■ Completed investment in real estate, left axis

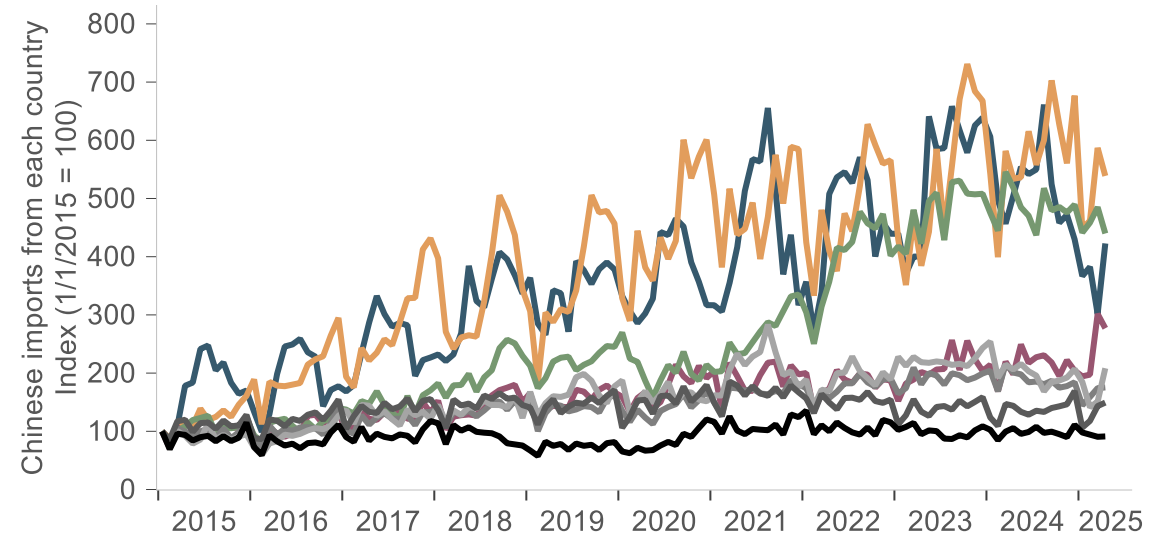


Sources: New York Life Investments Global Market Strategy, China National Bureau of Statistics (NBS), People's Bank of China (PBoC), Macrobond, June 2025. Lower reserve requirement ratio indicates that banks are required to hold fewer reserves, incentivizing them to lend; this is a form of monetary policy stimulus.

- Now, China must also contend with trade tension with the U.S. Reduced foreign inflows from exports are likely to pressure China's GDP growth, at least until an agreement is reached or trade relationships adjust to the new tariff environment.
- We may not see this direct impact for several quarters still, but are monitoring how shifting trade relationships affect China's trade relationships with Brazil, Mexico, and others (**right chart**).

We are monitoring a wide variety of Chinese trade relationships to capture tariff impact

— U.S. — Japan — Australia — Europe — Russia — Mexico — Vietnam — Brazil



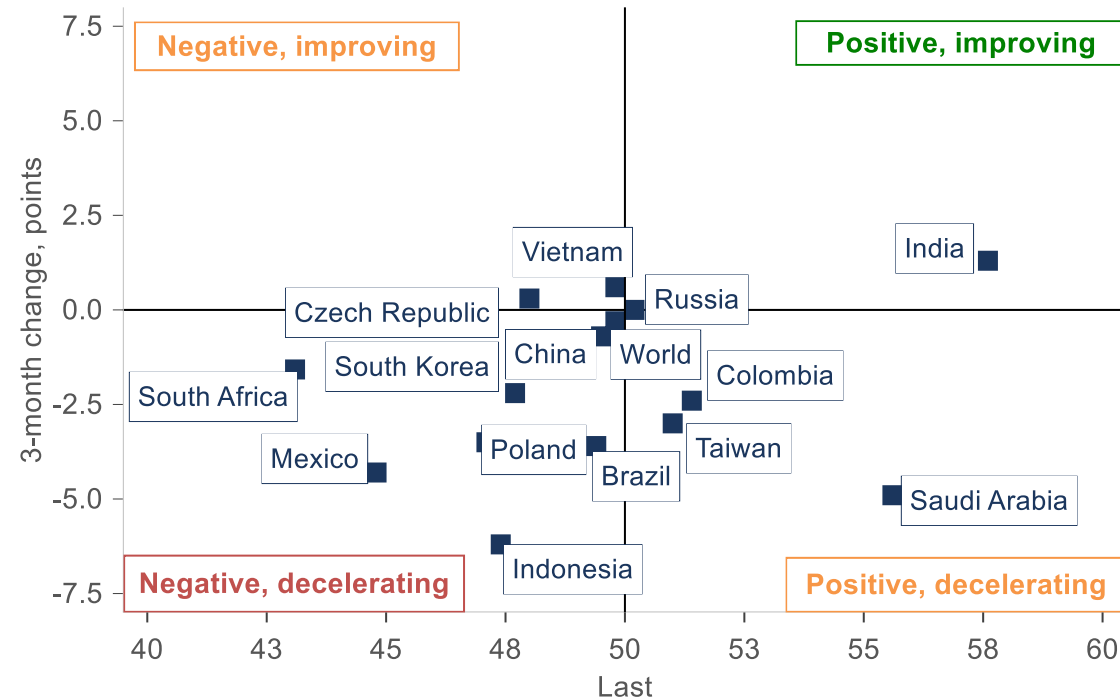
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Customs General Administration of the People's Republic of China, Macrobond, June 2025.

Emerging markets

Emerging markets are benefitting from the move toward global diversification and a weaker dollar, but likely face trade-related growth risks.

Emerging market economic activity remains solid overall, but cycles are heterogenous

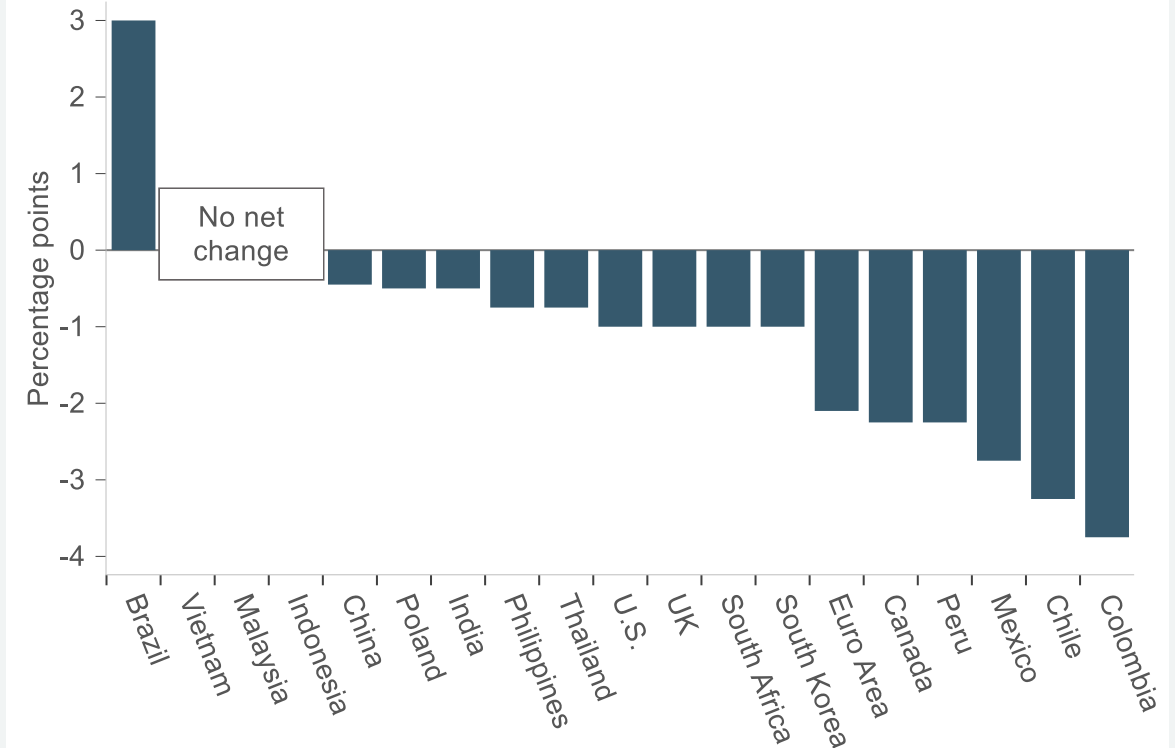
■ Emerging Markets Manufacturing PMI: Last value and 3-month change



Sources: New York Life Investments Global Market Strategy, S&P Global, China Federation of Logistics & Purchasing, Taiwan National Development Council, Bureau for Economic Research of South Africa (BER), Macrobond, June 2025.

A weaker dollar helps Emerging Markets keep policy accommodative

■ Percentage point change in policy rate since Jan 2024



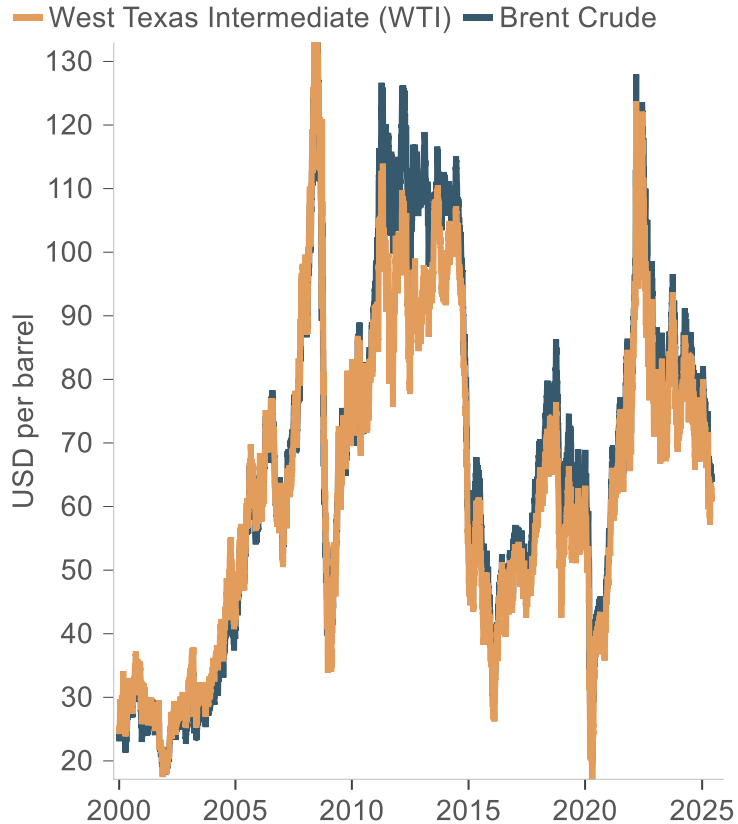
Sources: New York Life Investments Global Market Strategy, Federal Reserve, ECB (European Central Bank), Macrobond, June 2025.

TAKEAWAY: Emerging markets are heterogenous, but historically struggle to overcome growth pressures from developed markets. Investors should be sensitive to the earnings and valuation outlooks in each market, or should consider a holistic hedging strategy to counter broad-based EM currency weakness in periods of slowing global growth (for more, [see asset class insights](#)).

Global energy costs have largely normalized, but upside risks remain

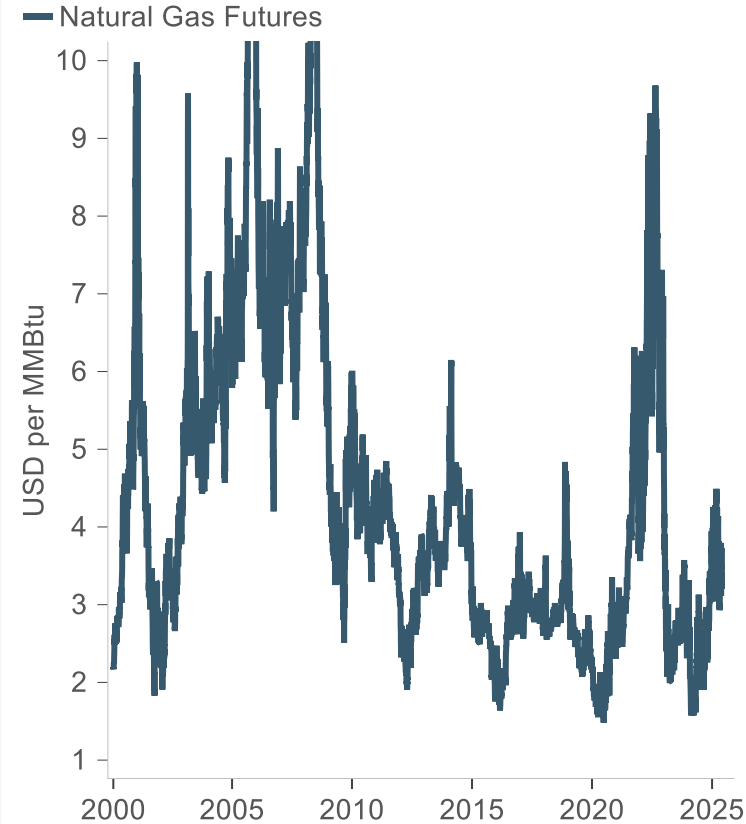
Shocks related to the pandemic and invasion of Ukraine have settled, leaving global energy prices broadly balanced.

Oil prices have normalized after the post-pandemic period and invasion of Ukraine



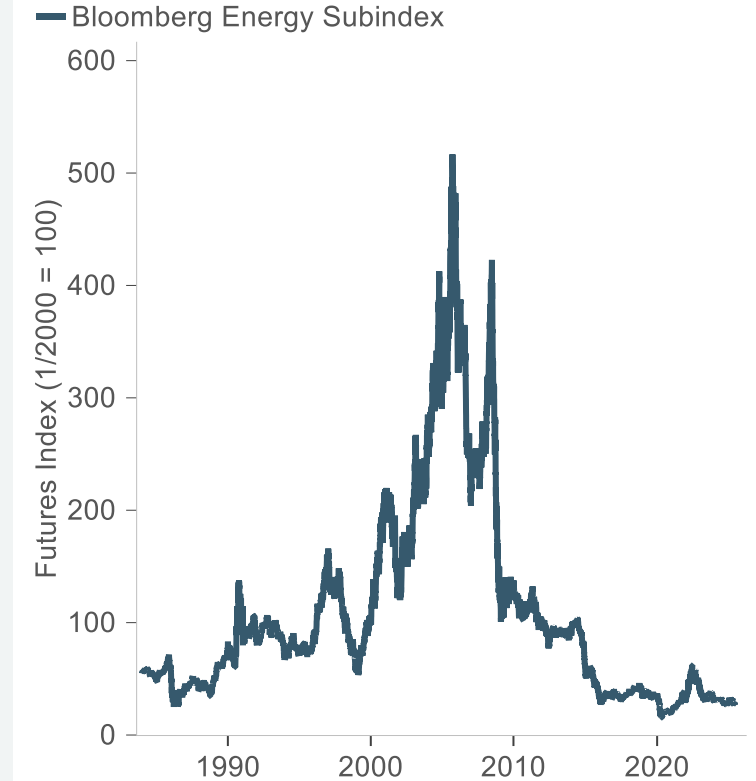
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025.

Natural gas has similarly normalized from its 2022 spike



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. MMBtu: million metric British thermal units

Overall energy futures are at their lowest point in over 30 years



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Energy Subindex is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas.

Other commodities have unique drivers

Geopolitical factors from central bank gold-buying to war-related disruptions are prompting major commodities to adjust to “new normal” levels.

Gold has led precious metals strength, benefitting from both commercial uses as well as a structural wave of central bank buying as actors such as Russia, China, and Iran built up greater gold reserves.

Industrial metals have benefitted from long-term investment themes, including infrastructure supporting energy independence and the digitization (AI) boom.

Agriculture futures were driven by higher grain prices after the invasion of Ukraine (Ukraine is one of the world’s largest producers of wheat and corn). Ukrainian grain exports are down today relative to their pre-war levels, but they have not ceased outright, supporting normalization in the agricultural commodities price index.

Precious metals futures, driven by strong gold demand, sit at historic highs

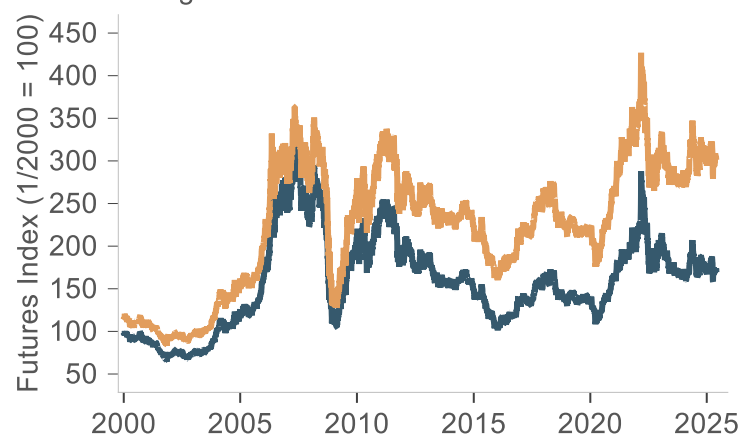
— Bloomberg Precious Metals Subindex: gold and silver futures



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. The Bloomberg Precious Metals Subindex is composed of futures contracts on gold and silver.

Industrial metals futures sit at the high end of historic range

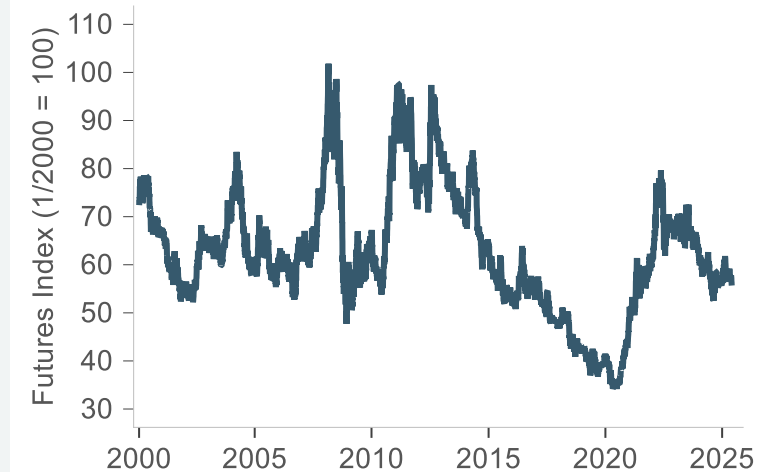
— S&P GSCI Industrial Metals Spot Index
— Bloomberg Industrial Metals Subindex



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. S&P GSCI Industrial Metals Index is comprised of aluminum, copper, nickel, lead, zinc. The Bloomberg Industrial Metals Subindex is comprised of the same, excluding lead.

Agriculture futures, however, have been compressed by greater production

— Bloomberg Agriculture Subindex



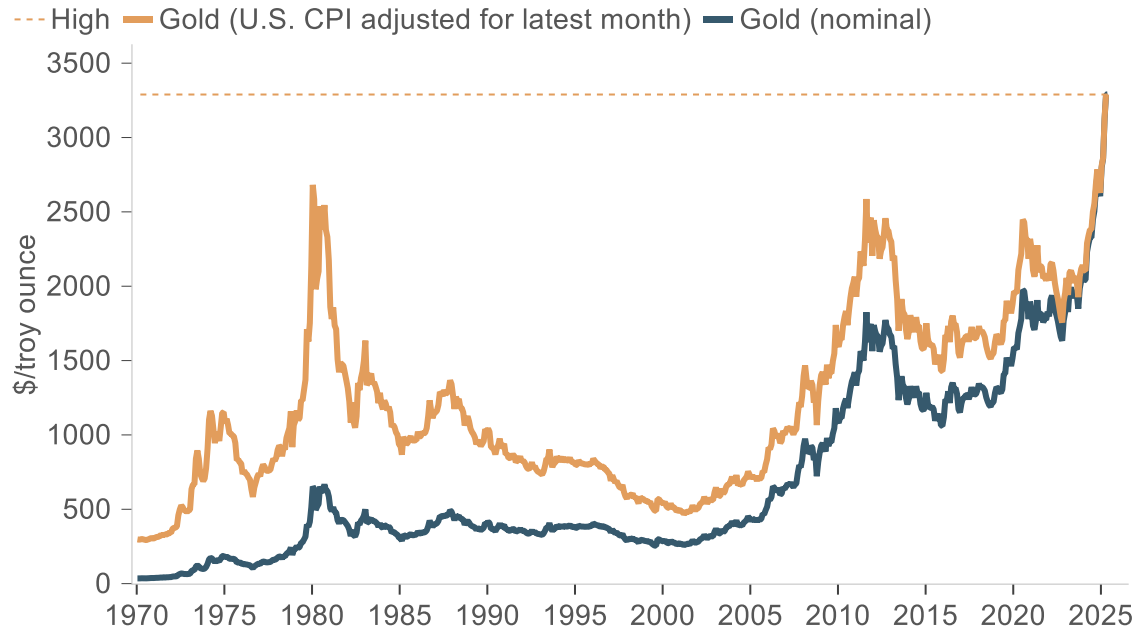
Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. Past performance is not indicative of future results. It is not possible to invest directly in an index. Bloomberg Agriculture Subindex composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat.

“Currencies” beyond the U.S. dollar

Gold and Bitcoin represent disparate approaches for how investors can consider diversifying outside the traditional public capital markets.

- We see gold as a “risk-off” diversifier. In addition to successfully hedging inflation over the long term, gold is benefitting from global central bank purchases and industrial uses.

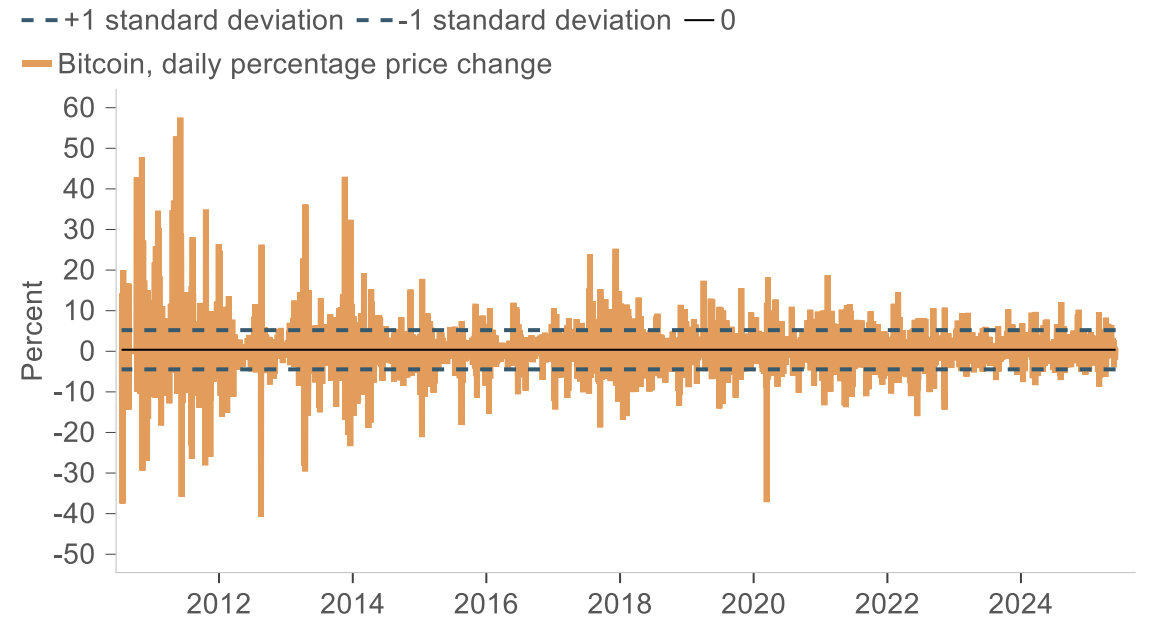
Gold is a proven inflation hedge over the very long term



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, U.S. Bureau of Labor Statistics (BLS), Macrobond, June 2025.

- Bitcoin, by contrast, is a “risk-on” diversifier; cryptocurrency is a risk asset with volatility to match. Bitcoin has seen stellar price performance post-pandemic, benefitting from broader retail participation in the wake of cryptocurrency ETF creation and pro-cryptocurrency policies from the Trump administration. However it is highly sensitive to changes in liquidity and market momentum.

Bitcoin's daily volatility has calmed as investor participation broadens, but is still incredibly high

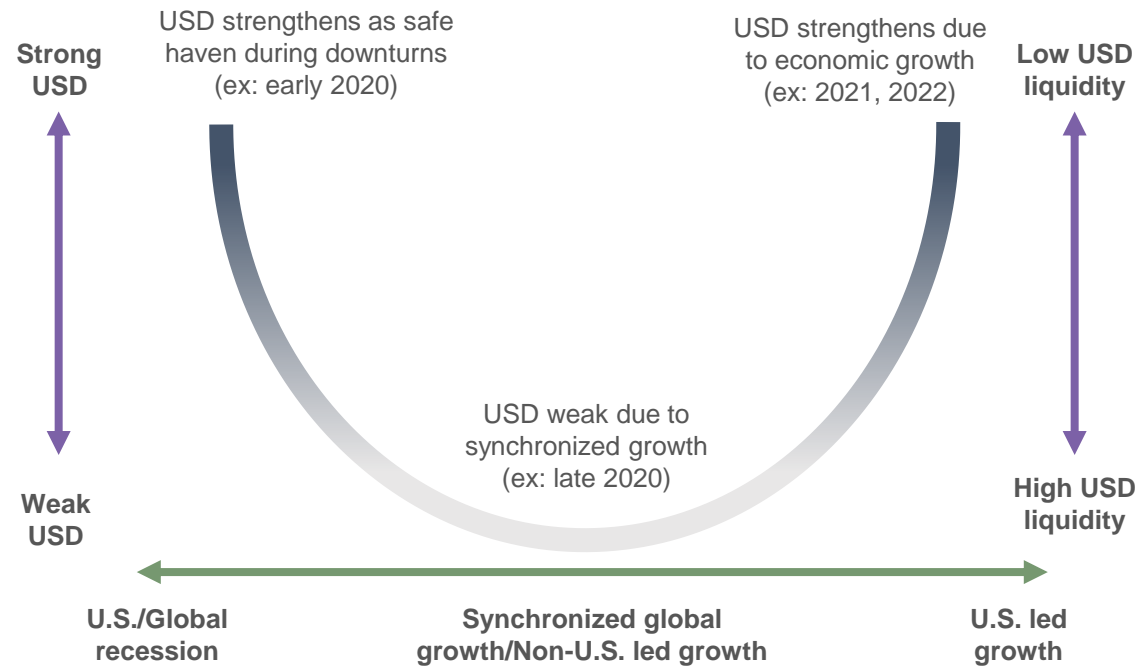


Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, June 2025.

Our framework for thinking about U.S. dollar moves

Relative global growth and relative global monetary policy create a high degree of uncertainty for the near-term direction of the U.S. dollar.

We use a “dollar smile” framework to anticipate currency regime



Opinions of New York Life Investments Global Market Strategy, may 2025. For illustrative purposes only

The dollar smile

- We see the strength or weakness of the U.S. dollar as a key source of risk for international exposure. One useful framework for analyzing the dollar is the "dollar smile" (**chart**). In moments of low liquidity (such as a crisis or recession), or when U.S. economic growth outperforms, the dollar is likely to be stronger. When liquidity and global growth are ample, the dollar tends to weaken.

Moving from left to right on the dollar smile curve:

- The dollar strengthened at the start of 2020, when a flight to quality fueled dollar demand.
- Later, the global economy grew as countries recovered from the COVID-19 pandemic. The broad and synchronized expansion led to dollar weakness in the second half of 2020.
- In 2021 and 2022, the dollar strengthened as U.S. economic growth, supported by large fiscal and monetary stimulus, began to far outpace that of other countries.
- As the market prices in lower U.S. growth, its also repricing U.S. dollar strength. The dollar is currently trading around its 3-year average, and we see risks to the U.S. dollar as broadly balanced today.





What's next for the U.S. dollar?

- In a phrase: rangebound and volatile.
- Tariffs, on their own, increase the relative strength of the dollar, however, capital flows out of the U.S. have placed downward pressure on dollar strength.
- For the dollar to weaken from here, we would likely need to see clearer signs of slowing growth in the U.S. Upside growth surprises would support dollar strength, in our view.
- Rate cuts from the Fed may also reduce the USD's attractiveness relative to other currencies in the short term, though rate differentials still favor the USD.

TAKEAWAY: The dollar has weakened, but we see risks as roughly balanced for now. Still, strong opposing forces – tariffs pushing up and growth concerns pulling down – point to continued volatility. Investors with global exposure can consider a currency hedged strategy.

Dollar dominance: the U.S. dollar remains chief of all reserve currencies

The Chinese renminbi in particular does not yet meet the criteria for reserve currency status, and is unlikely to pose a threat to dollar dominance.

| REQUIREMENTS FOR A GLOBAL RESERVE CURRENCY | | | | |
|---|---|---|--|--|
| REQUIREMENT |  U.S. DOLLAR |  EUROPEAN EURO |  JAPANESE YEN |  CHINESE RENMINBI |
| Trust in the central bank <i>Share of global FX reserves</i> | 57% | 20% | 6% | 2% |
| Liquidity <i>Foreign holding of government debt</i> | 35% | 38% | 30% | 9% |
| Broad acceptance <i>Share of foreign currency debt issuance</i> | 64% | 24% | 3% | 1% |
| Convertibility <i>FX transaction volume</i> | 45% | 16% | 9% | 4% |
| Open capital account <i>Capital controls</i> | None (Open) | None (Open) | Some (Restrictions) | Tight (Closed) |
| Floating exchange rate regime <i>Exchange rate regime</i> | Floating | Floating | Managed (Yield curve control) | Managed (against a basket of currencies... including the U.S. dollar!) |

Sources: New York Life Investments Global Market Strategy, Federal Reserve, Bank for International Settlements, Bloomberg Finance LP. January 2025, International Monetary Fund, Q3 2024. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

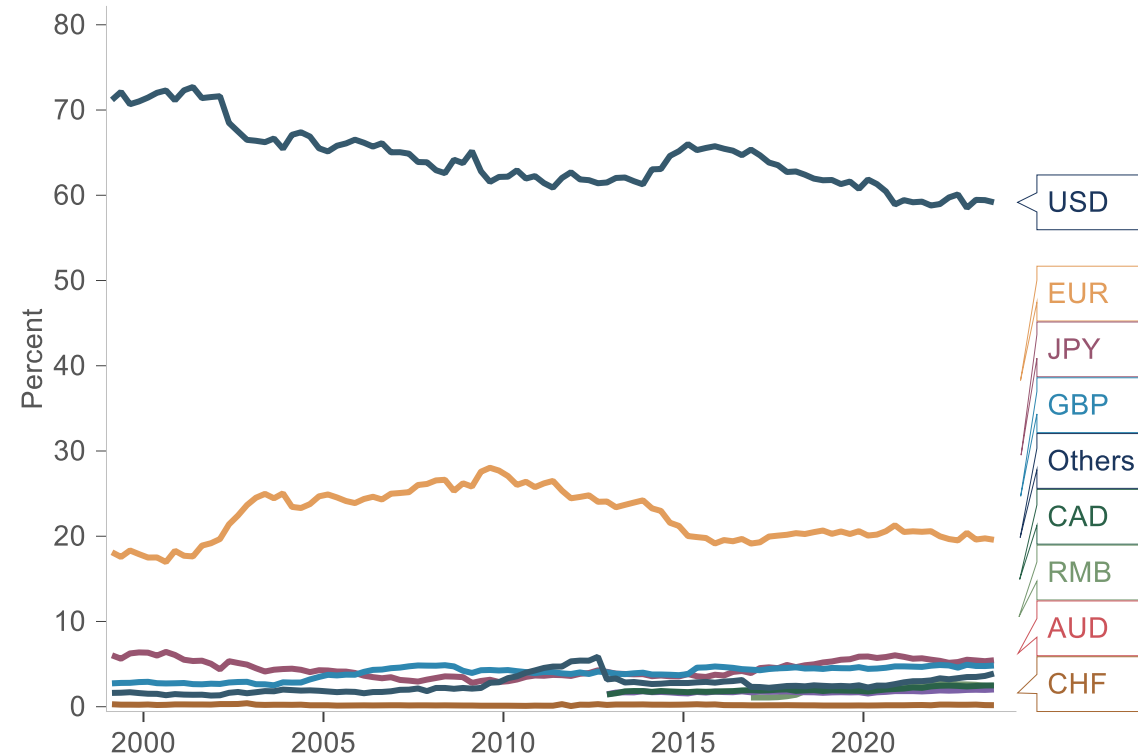
TAKEAWAY: Dominating global reserves, transactions, and global debt, the USD is set to remain the world's primary reserve currency. China's capital controls and lack of global convertibility and transactability make it unlikely for RMB influence to expand beyond select commodity-based trade relationships.

Dollar dominance: only innovation can unseat the USD

Real disruptive potential comes not from competitor currencies, but innovation.

The USD still dominates global finance

Share of global currency reserves



Sources: New York Life Investments Global Market Strategy, Macrobond, June 2025.

- What could truly pose a threat to the vast scale of USD dominance (**left chart**)?
- History tells us that a combination of innovation and global conflict have been the catalysts for currency regime change (**table**). It is not a country's rise in importance, but rather the emergence of a new and more efficient system, that has initiated past currency transitions. Digital currencies could be the next such innovation to disrupt today's currency regime.

| DOMINANT CURRENCY | MAINSTREAM VIEW FOR DOMINANCE | INNOVATION CATALYST |
|---|--|---|
| Venetian ducat (12th century–16th century) | The Fourth Crusade and other medieval military conflicts | Gold standard, minting and navigation technology |
| Spanish dollar (16th century–1800) | Spanish Armada's defeat of the English navy in 1588 | Mining and transportation technology |
| British pound (1815–1920) | The Seven Years' War and the Napoleonic Wars | Steamship industry expansion |
| U.S. dollar (1920–?) | WWI, WWII | Early adoption of telegraph, federal reserve system, development of aviation industry |

TAKEAWAY: Though countries like China are increasing in global geopolitical importance, it is not a single country's rise that displaces a currency – at least in historical terms. Instead, we expect the U.S. dollar system would be more likely to be replaced when a more efficient alternative to fiat currencies – such as a global digital currency system – were to emerge.

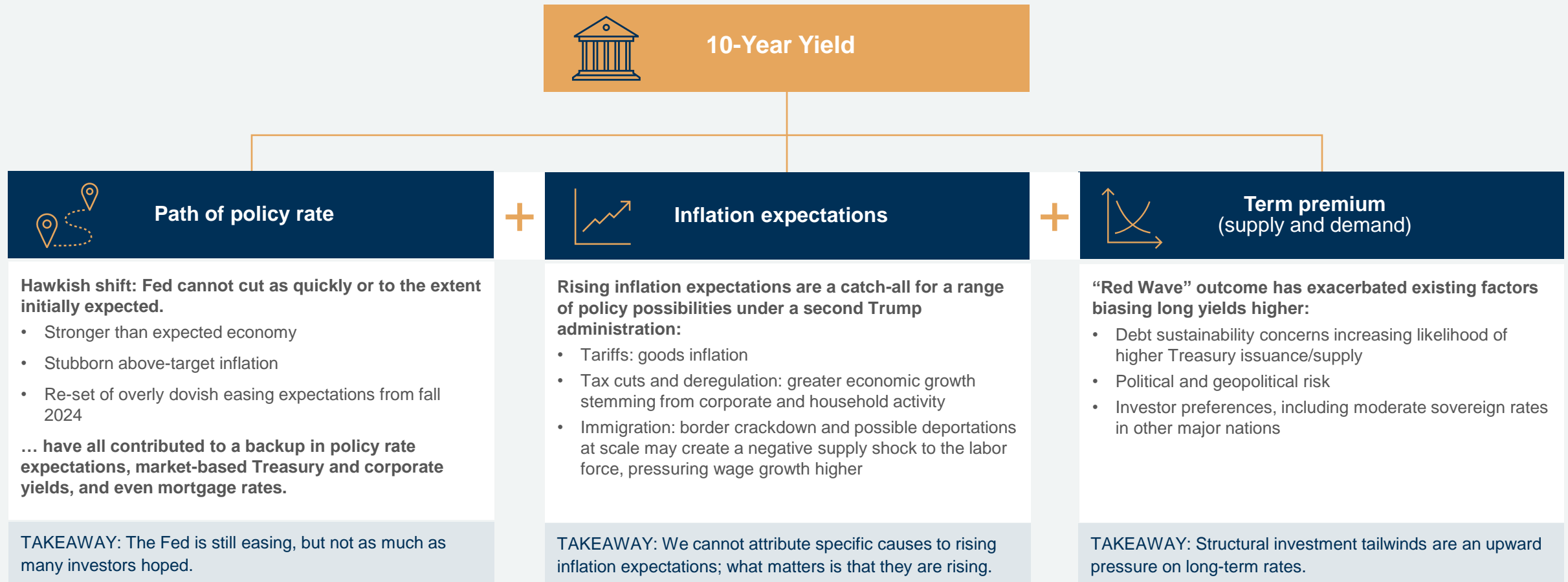
4 Long-term themes

Insights

- [Long-term interest rates](#)
- [U.S. debt sustainability](#)
- [Geopolitical risk](#)
- [Global megatrends](#)

Why are long rates rising when the Fed is easing?

Both the “Trump trade” and structural factors are pressuring long rates higher.

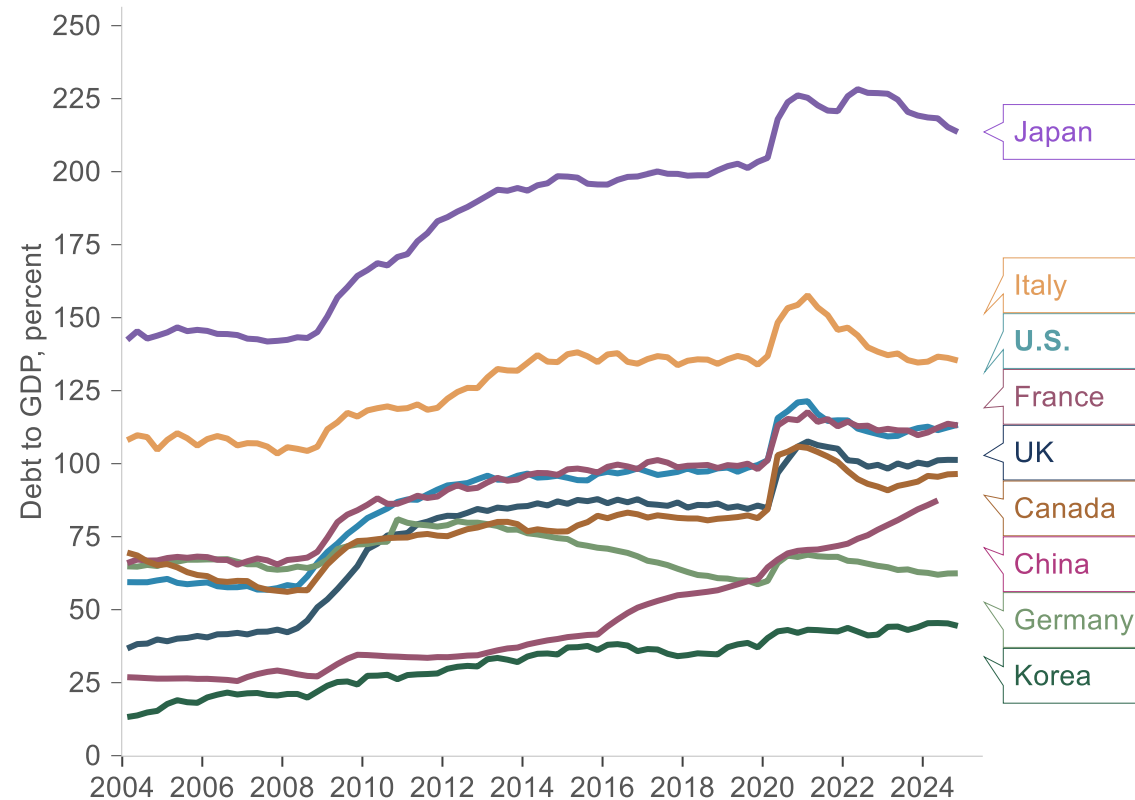


Opinions of New York Life Investments Global Market Strategy, June 2025.

U.S. debt sustainability: can the U.S. keep its pace of spending?

Higher public debt levels are associated with slower growth, higher interest rates, and higher inflation.

The U.S. debt burden is moderate relative to peers



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), Macrobond, June 2025.

- The United States has as much federal debt as many of its major peers combined, but relative to economic size, its debt burden is in the middle of the pack (**chart**).
- What allows the U.S. to carry so much debt: *exorbitant privilege*. With the U.S. dollar as the world's dominant reserve currency and the world's deepest capital markets, the U.S. can carry and finance more debt than other advanced economies thanks to structural demand for Treasuries and dollar-denominated assets.
- We do not expect a U.S. sovereign default in the foreseeable future because of the enormous depth of U.S. capital markets relative to those of other highly indebted countries.
- Now that the interest burden has become more acute (see next page) and \$1 trillion in new public debt is accrued every ~100 days, we see increased potential for market and political pushback on further spending plans and debt ceiling negotiations.

Various considerations affect the sustainability of U.S. federal debt:

- Productivity of spending: investments in health, education, competitiveness, and productive infrastructure have a greater economic multiplier than direct household support or tax cuts, which are often used to increase savings rather than spending
- Pace of debt increase: faster debt runup is more likely to be considered risky
- Interest burden (see next page)

We expect the following areas to dominate the next years of U.S. spending:

- Energy: traditional and green
- Digital infrastructure, from electric vehicles to data centers
- Power grid infrastructure to fuel generative Artificial Intelligence
- Defense, including cyber defense

TAKEAWAY: U.S. debt sustainability risks are rising, but we do not see fundamental triggers for a debt crisis or default thanks to the market depth and structural demand for U.S. assets. Irresponsible spending by an administration of either party can certainly harm investor confidence in U.S. assets, namely Treasuries, but we would expect such an impact to be short-lived and contained.

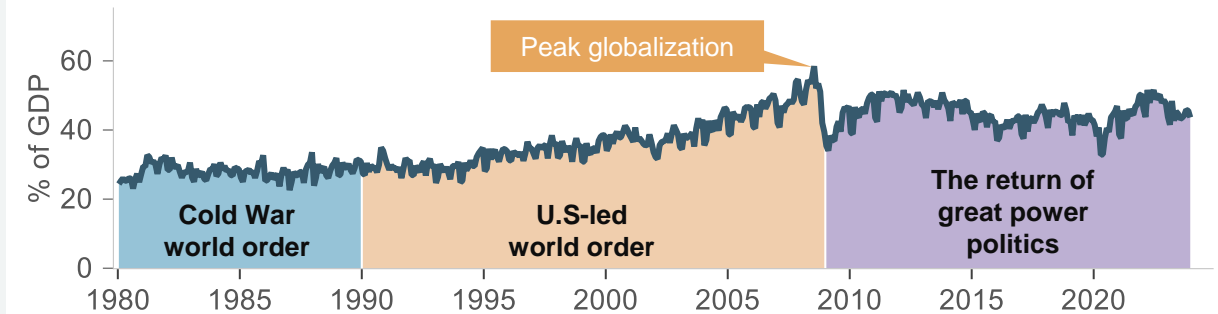
Navigating the new geopolitical order

The end of U.S.-led globalization is reshaping markets and strategy.

- We believe the U.S.-led world order, which took hold in the early 1990s and peaked around 2010, has been gradually giving way to a return of great power politics (**right chart**) defined by economic nationalism, strategic industrial policy, onshoring, and the weaponization of trade, technology, and financial systems. This regime change has far-reaching implications for capital flows, inflation, and portfolio construction.
- The end of the Cold War world order was abrupt, driven by the collapse of the Soviet Union. The rise of great power politics has been more gradual, shaped by economic competition, shifting alliances, and regional rivalries.
- Though recent U.S. policy positions may have accelerated this regime change, the broader trend is about more than one country or one administration. The global economic landscape has shifted in stages: as free trade and open markets became more entrenched; as the beneficiaries of those economic ideas ebbed and flowed; and as policymakers' tools and preferences changed.

Globalization peaked alongside the U.S.-led world order

Trade openness: sum of global exports and imports as a percent of world GDP



Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), United Nations Trade & Development, Macrobond, June 2025.

The principles of the U.S.-led world order are giving way to...

...the principles of great power politics

Globalization



Economic nationalism

Free trade



Weaponization of trade and finance

Market liberalization



Preference for bilateral relations over multilateral institutions

Multilateral institutions



Strategic competition; emphasis on industrial policy

Efficiency over resilience



Resilience over efficiency

Results

Countries increasingly pursue onshoring, reshoring, strengthening their own domestic industries.

Sanctions, tariffs, and financial restrictions are deployed more frequently as instruments of geopolitical pressure, especially by the United States.

Governments move away from multilateral agreements and institutions – such as the Trans-Pacific Partnership and the WTO – in favor of bilateral negotiations that prioritize national interests.

Governments direct investment into strategic sectors to bolster industrial capacity and national competitiveness.

Countries reconfigure supply chains to emphasize resilience and redundancy, marking a shift away from cost-optimized globalization.

How can investors account for geopolitical risk?

Investors can consider a range of investment approaches for the return of great power politics.

- Regime change from a U.S.-led world order to great power politics carries significant implications for global economic organization and policy decision-making.
- In an era defined by great power politics, investors should focus on protecting portfolios from inflation and political volatility by prioritizing real assets, commodities, infrastructure, and resilient (or beneficiary) sectors.

| Theme | Approach | Investment idea |
|---|---|---|
| Incidence of geopolitical risk appears to be rising | → Add a macro volatility satellite to portfolio | → Equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity |
| Event risk can impact any country or region | → Diversify country exposure | → The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge |
| | → Manage currency risk | → Consider a 50% currency hedge as currency volatility is likely to be higher |
| Regime change / Event risks are more likely to become paradigm shifts | → New world order is likely to push prices and rates higher | → <i>Manage duration:</i> we prefer short duration exposure or, when extending duration, keeping a close eye on income generation per unit of interest rate volatility <i>Add inflation-aware asset classes:</i> TIPS, real assets <i>Build income across asset classes:</i> Dividend-paying equities; high-yield corporate bonds |
| | | → <i>Private assets:</i> Focus on areas of real value creation. We favor the lower middle market as an area more resilient to global changes and capital markets trends, especially as dry powder has been captured upmarket |
| | → Economic nationalism is becoming more evident | → <i>Overweight domestic champions and beneficiary sectors:</i> industrials, energy, semiconductors, cybersecurity, and defense |
| | | → <i>Capture global megatrends:</i> Digital and energy infrastructure may benefit from the confluence of geopolitical trends and global economic needs (e.g. artificial intelligence). |
| | → Market risk is more politically-driven and non-economic | → Active management tends to outperform during periods of higher volatility. Investors should consider actively managed funds to better target quality opportunities in equities and credit. |

Opinions of New York Life Investments Global Market Strategy, June 2025.

Global megatrends: creating persistent demand for capital

Innovation in geopolitics, energy needs, and innovation are fueling real economic activity, driving investment opportunity.

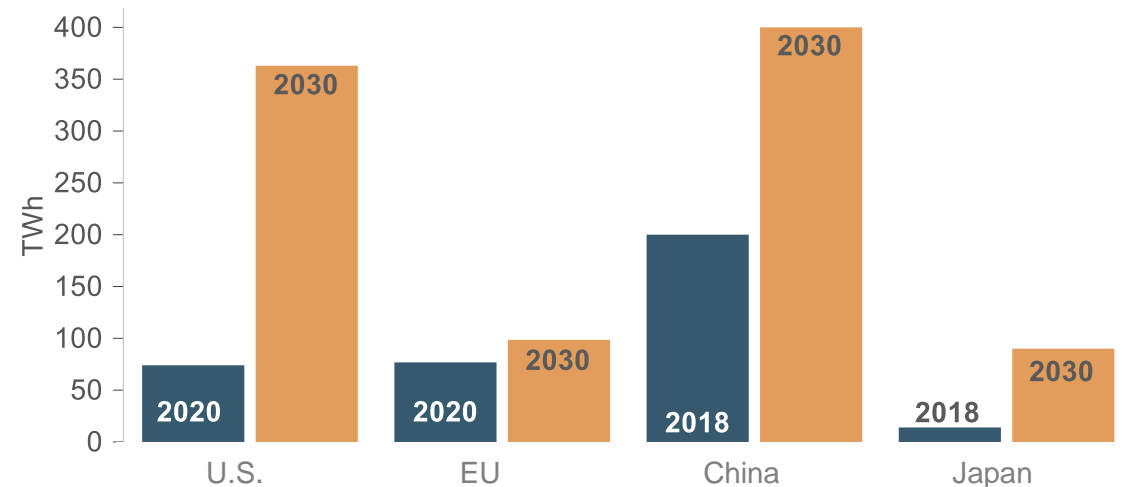
- A powerful combination of global economic and geopolitical events – the COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia's invasion of Ukraine, the rapid rise in computing power of semiconductors — has rapidly changed the global economic model. Efficiency of supply chains is no longer as important as the security of, and persistent access to, key materials.
- We believe that the combination of national interest (public funding), corporate leadership (capital expenditure), and universal application (household interest) in these trends will result

in durable investment.

- For the next few years, these transitions are likely to be highly capital intensive. More materials will be required, promoting potentially higher prices for those materials, and contributing to our conviction that inflation and interest rates are likely to be higher and more volatile.
- These transitions may also drive policy changes. Stickier inflation, alongside a strategic demand for capital investment, may encourage central banks to re-consider their inflation targets.

AI's additional power requirements are extensive

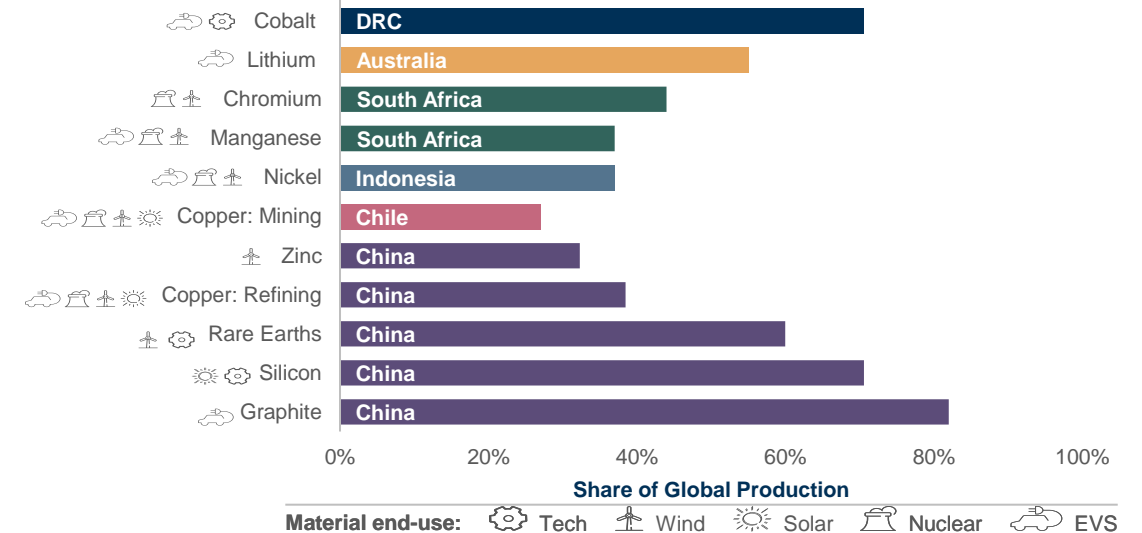
Data center electricity use



Sources: New York Life Investments Global Market Strategy, Macrobond, International Energy Agency, CBRE Investment Management, European Commission, China's State Council, Japan Science and Technology Agency, S&P Global, U.S. Energy Information Administration, June 2024. TWh = terawatt hours of electricity

Global resource production for key technologies is highly concentrated

Share of raw materials: top producer for each commodity



Sources: New York Life Investments Global Market Strategy, U.S. Geological Survey, International Energy Agency. Data as of 2021.

Global megatrends: AI is likely to spark sustained capital reallocation

Investment opportunities are likely to be concentrated in three underpinning layers of AI.

Infrastructure



Chips, data centers, power

- Data centers' computation and cooling needs are expected to drive astonishing increases in electricity demand.
- Some past innovation waves, such as electric vehicles, did not see a timely infrastructure buildout. We believe AI has three critical ingredients for a successful infrastructure timeline:
 - Public funding: the \$300B U.S. CHIPS Act is just one national initiative to support tech infrastructure, mirrored by many other countries.
 - Corporate leadership: Magnificent 7 firms are footing the bill for development of GenAI models and proprietary infrastructure.
 - Universal application: with over 100M weekly users, ChatGPT alone shows the enthusiasm behind GenAI that is necessary to support allocation of resources toward this innovation.

AI has daunting infrastructure requirements, but we believe they will be achieved.

Foundational models



Data, model creators, cloud

- Up to this point, investment hype around AI has been concentrated around the major AI model providers. GenAI models are expensive and onerous to create, requiring high-quality data, time to train models, and a specialized talent pipeline.
- As AI adoption and use-cases broaden, we see competition reaching foundational model providers. This competition may come from new entrants creating large models, or from large corporations creating in-house models.
- Greater competition among model providers should lower costs for corporate users of AI, in turn fostering even broader adoption.

As AI use-cases expand, expect more competition among GenAI model providers to lower costs for AI users.

Corporate application



Software, services, use case exploration

- Companies looking to leverage AI face classic cost and corporate strategy tradeoffs, but there are areas of uncertainty in the early days of AI that will require specific attention and capital allocation:
- Ethical AI: we believe companies willing to leverage strong corporate governance toward a robust responsible AI framework will see a return on that investment.
- Regulation: regulation has not yet caught up with AI in the U.S., creating a cheaper but more uncertain operating environment.
- Competition: at the corporate and national level, and AI arms race may foster both rivalry and cooperation.
- Labor policy: we see AI creating a net upskilling effect for the labor force rather than mass unemployment, as jobs move from execution to monitoring and compliance.

Companies will not only need to allocate capital to AI use cases, but also to buffer against regulatory uncertainty.

5 Equity

Insights

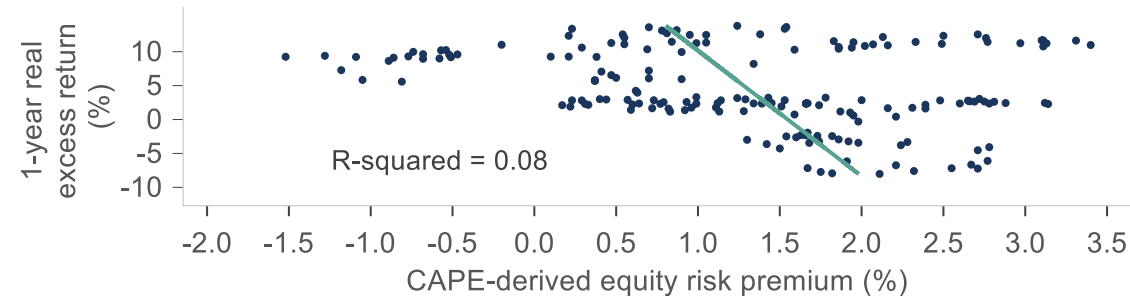
- [Equity risk premium](#)
- [Valuation](#)
- [Corporate earnings](#)
- [Style](#)
- [Dividends](#)
- [Size](#)
- [Non-U.S. developed markets](#)
- [Emerging markets](#)

Today's equity risk premium suggests bonds may outperform stocks in the long run

Understanding the equity risk premium as a long-term indicator of equity outperformance.

The U.S. equity risk premium is a weak indicator of one year excess performance of stocks over bonds...

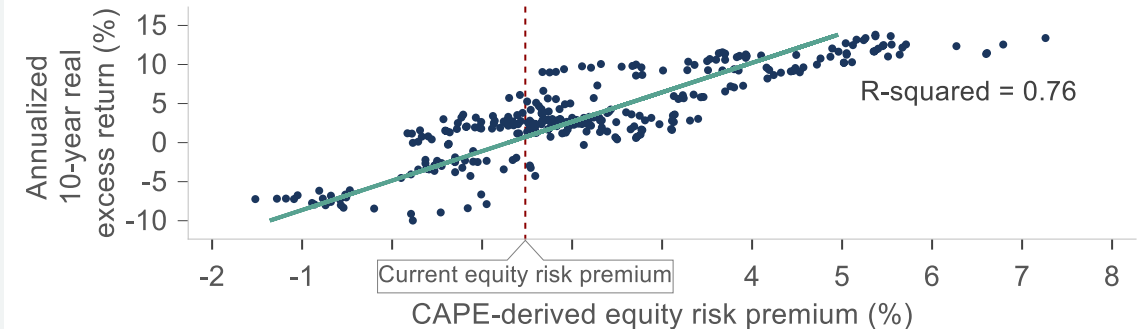
Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, June 2025. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

...but a much strong predictor over a 10-year horizon

Individual dots represent months, data from 1980



Sources: New York Life Investments Global Market Strategy, Shiller, Macrobond, June 2025. R-squared quantifies how much of the variation in the dependent variable is explained by the independent variables in a regression model. CAPE: cyclically adjusted (for inflation) price-to-earnings ratio.

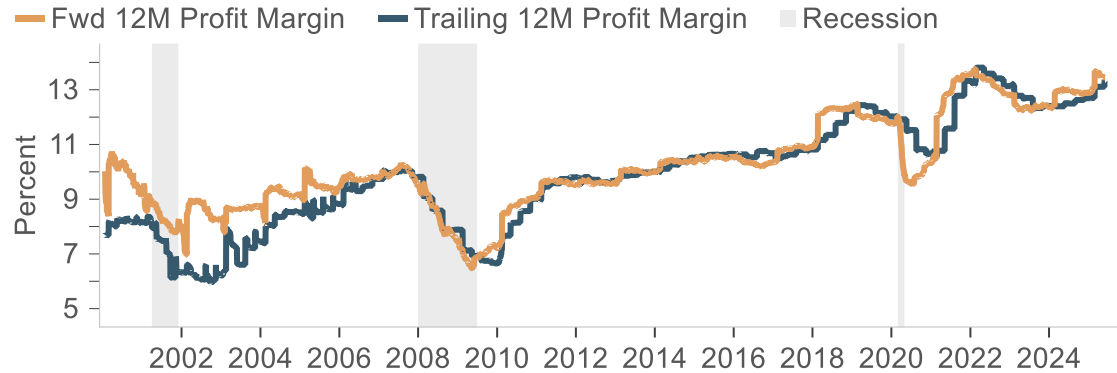
- The equity risk premium measures the difference between the expected return from equities (the earnings yield or inverse of the price-to-earnings ratio) and the risk-free return (typically the U.S. 10-year Treasury yield). A low or negative equity risk premium implies that equities are potentially overvalued relative to bonds, suggesting a lower likelihood of equities outperforming bonds.
- As a predictor, the equity risk premium has historically done a weaker job on a short-term time horizon. There is virtually no relationship between the equity risk premium and one-year ahead returns suggesting equity risk premium is a weak predictor of year ahead returns (**left chart**).
- However, over a 10-year horizon, the equity risk premium has historically been a much better predictor of future returns (**right chart**). Based on historical experience, today's equity risk premium would point to an annualized 10-year real outperformance of stocks over bonds of roughly 1.5%. This says to us that there is more risk to buying equities at these levels and outperformance of stocks over bonds is challenging in this environment.

TAKEAWAY: Based on current market valuations and interest rate levels, expecting stocks to significantly outperform bonds over the next decade might be overly optimistic.

The outlook for corporate earnings is still positive in the face of growing risks

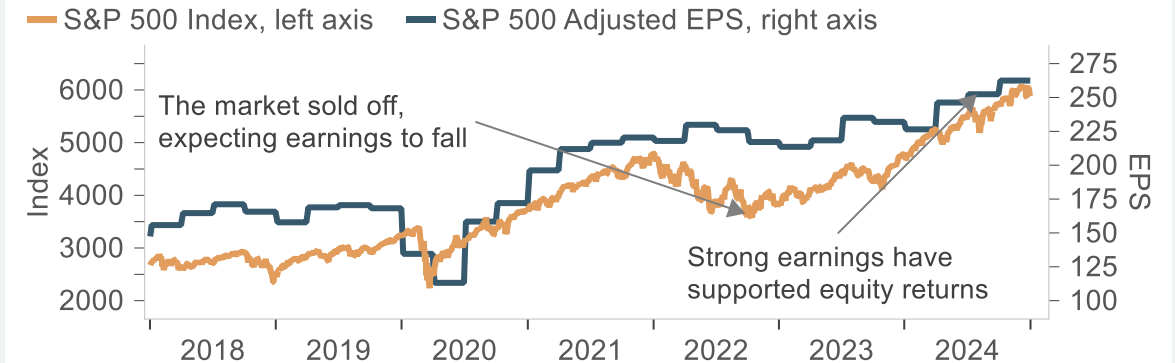
Earnings growth has held up, but cooling demand and still-high costs make the market's 10% earnings growth expectation challenging in our view.

Corporate profit margins are the next domino to fall: they may appear resilient but there is a wide dispersion between sectors



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, June 2025.

Strong earnings have justified lofty valuations and stellar price performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, June 2025. EPS: Earnings per share. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

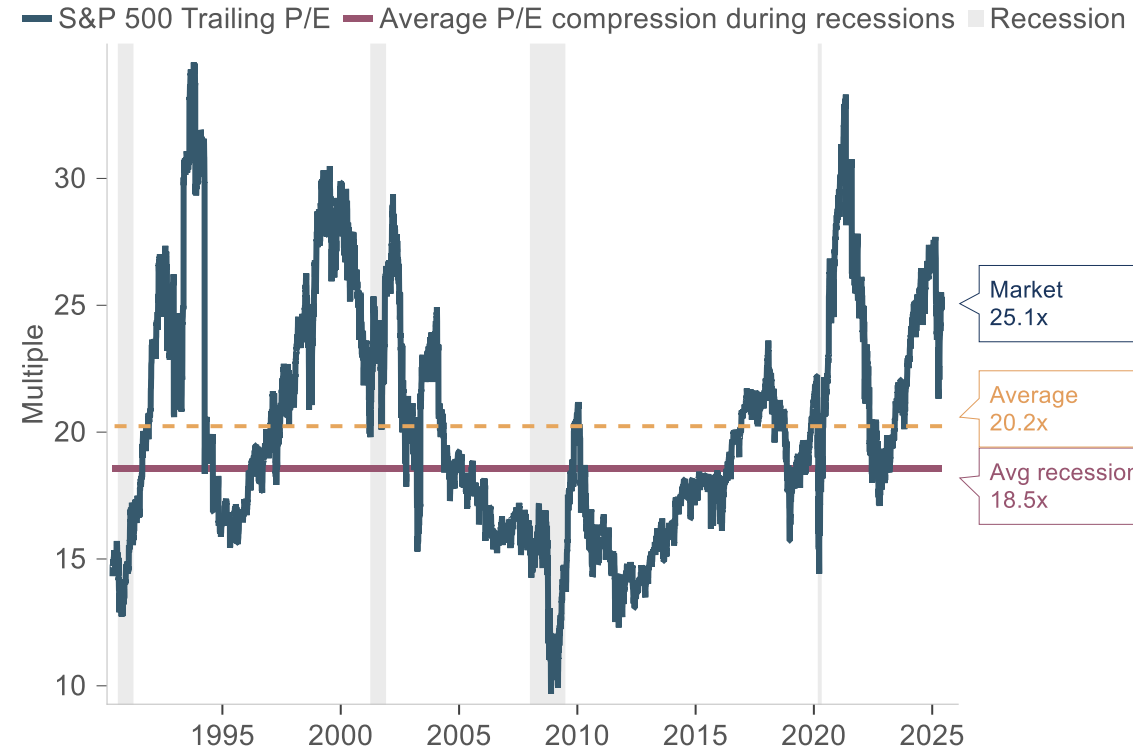
- Equity markets are priced based on earnings and multiple expansion (or contraction), with multiples being influenced by factors such as cost of capital and investor sentiment.
- Corporate earnings have remained resilient in the face of increasing risks. Profit margins appear resilient (**left chart**) but there is a wide dispersion between sectors with tech seeing the most strength. Today, the market is still optimistic about earnings growth. Market pricing suggests earnings per share (EPS) are expected to grow by 10% in 2025 and 7% in 2026. For context, EPS rose by 13% in 2024 and nudged up by only 0.5% in 2023, which was also a period of very strong economic activity. From our perspective, achieving a much higher level of earnings growth this year would require economic growth to accelerate – not just stabilize – a development we don't see as likely or lasting.
- How much of a selloff should investors expect if earnings growth came into question? In a typical earnings-related selloff, based on the past 16 recessions (excluding the Covid recession), the median draw down in real EPS is 21%. In 2022, the S&P 500 experienced an 25% drawdown when investors began to doubt corporate resilience (**right chart**). But in this case, performance rebounded - profits were ultimately boosted by business and wage supports, as well as lower rates locked in from the years of easy monetary policy. If earnings don't expand further from here, investors hoping for higher equity valuations would be left to rely on multiple expansion via falling rates and improving confidence.

TAKEAWAY: Stable corporate earnings have provided support for equity performance; however, inflation and margin compression remain a risk for many of these companies. Investors are pricing in strong earnings growth, but we remain cautious as companies prepare for a volatile trade and policy environment.

Equity valuations: falling back to Earth

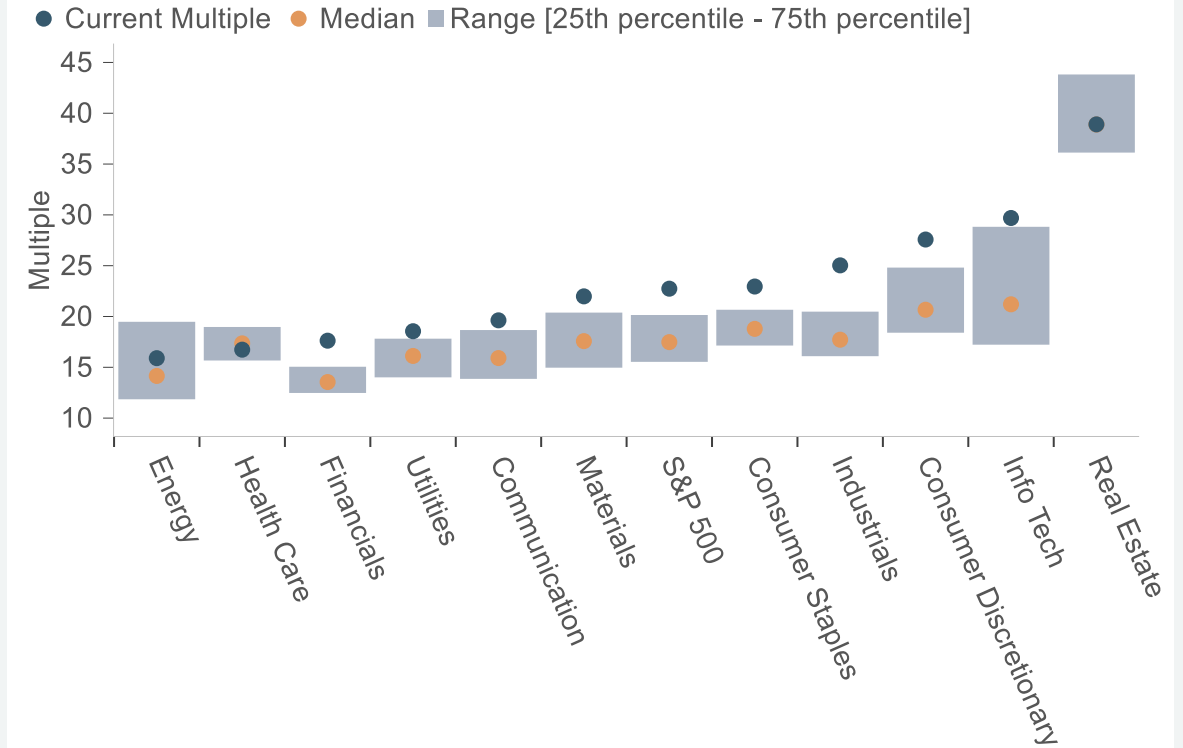
Recent market volatility, driven by geopolitical tensions and trade policy uncertainties, has impacted equity valuations but the market isn't cheap.

The S&P 500 is trading above its long-term average



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, June 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Most S&P 500 sectors are trading above their long-term medians



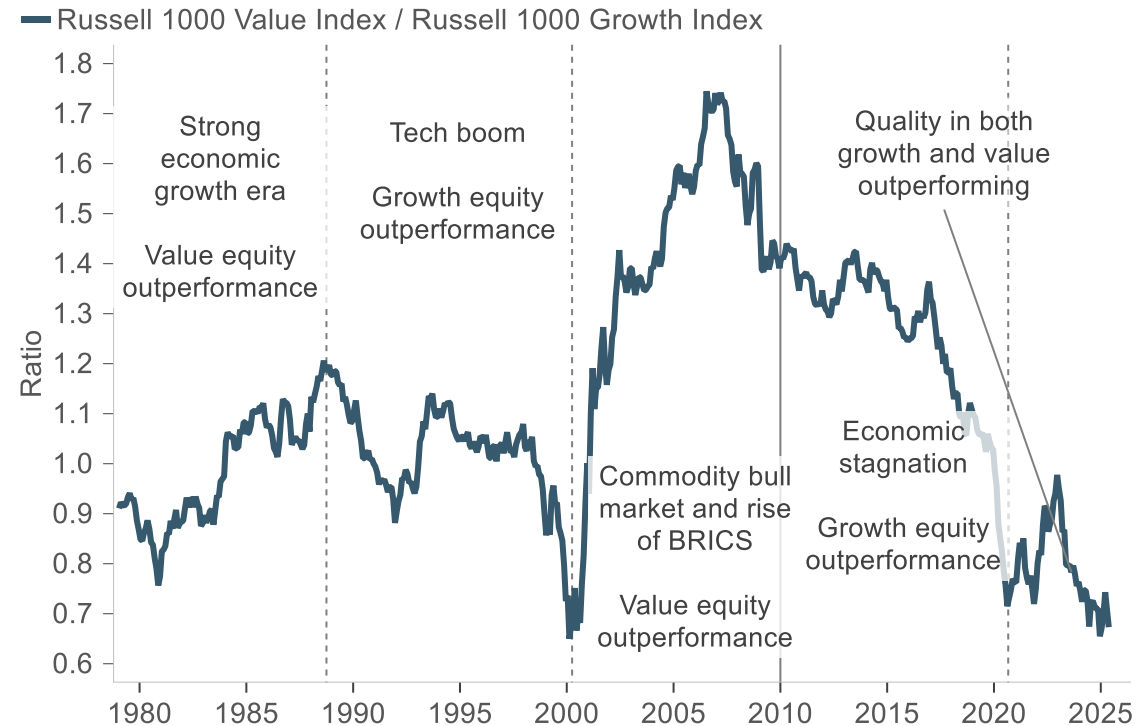
Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. It is not possible to invest in an index. Past performance is not a guarantee of future results. Each sector index comprises those companies included in the S&P 500 that are classified by the GICS® Level 1 sector of the same name.

TAKEAWAY: Even after pulling back, U.S. equity valuations still remain above their long-term averages so they aren't yet considered cheap. We expect valuation multiples to see increased volatility as the macro environment remains uncertain.

Value equities have held up better than growth stocks during the market selloff

Value indexes are also less concentrated than growth indexes suggesting a greater level of resilience amidst policy uncertainty.

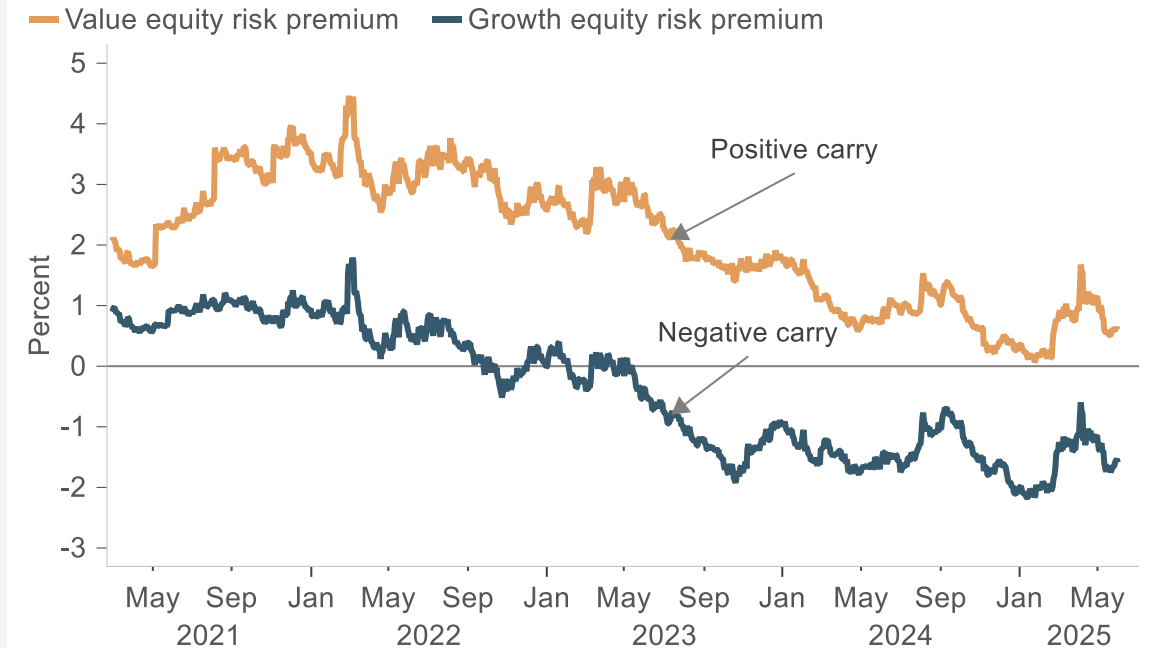
The post-pandemic era hasn't yet proven more supportive of value equities



Source: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. The Russell 1000 Growth Total Return Index measures the performance of large-cap growth-oriented stocks in the U.S. market. The Russell 1000 Value Total Return Index measures the performance of large-cap value-oriented stocks in the U.S. market. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Value equities have offered positive carry; growth equities appear overbought

Equity risk premium represents the index's expected earnings yield less the U.S. 10-year Treasury yield.



Source: New York Life Investments Global Market Strategy, U.S. Treasury, Bloomberg, Macrobond, June 2025. Value is represented by the Russell 3000 Value Index, which measures the performance of value-oriented stocks in the U.S. market. Growth is represented by the Russell 3000 Growth Index, which measures the performance of growth-oriented stocks in the U.S. market. Past performance is not a guarantee of future results.

TAKEAWAY: Value stocks are leading in 2025 and trade at a wide discount to growth equities, offering attractive entry points. Still, with growth outperforming in 14 of the past 20 years, we're not dropping growth equities altogether and believe a balanced approach remains key.

Using dividend stocks to boost equity-based income generation potential

Volatile markets call for sources of stability; upside inflation risks call for diversified income generation potential within portfolios.

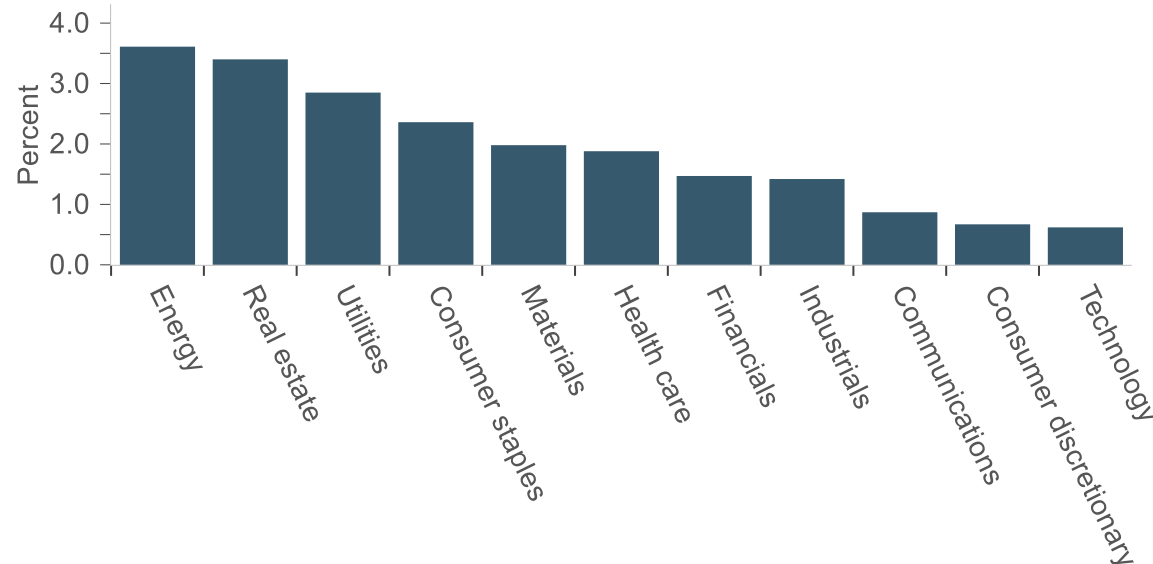
- For investors concerned about U.S. equity market performance, we suggest considering dividend stocks for new allocations. Dividend yielders combine characteristics of high quality and income generation that fit well into our broader market outlook. These companies also tend to be value companies, a diversifier for many growth-heavy U.S. portfolios.
- Dividend-paying equities reduce portfolio duration by delivering a greater share of their total return in the form of near-term cash flows rather than long-term capital appreciation. In effect,

they function like shorter-duration assets, with more of their value realized upfront. This is particularly attractive in a high-rate environment, where long-duration assets – those with cash flows further out – are more heavily discounted and thus more sensitive to rising yields.

- By tilting toward dividend payers, investors can reduce interest rate risk, improve cash flow resilience, and maintain equity exposure without taking on the full brunt of duration-driven volatility.

Where to find durable income in equities?

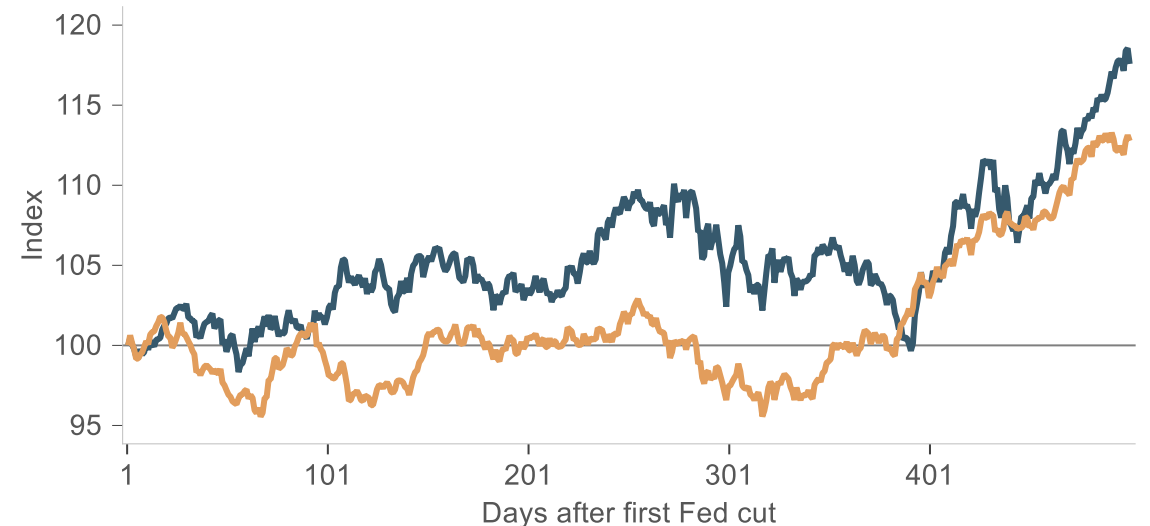
Dividend yield by S&P 500 sector



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is impossible to invest in an index. Past performance is not a guarantee of future results.

Dividend paying companies tend to see stronger returns after the Fed cuts rates

— S&P 500 — Dividend aristocrats

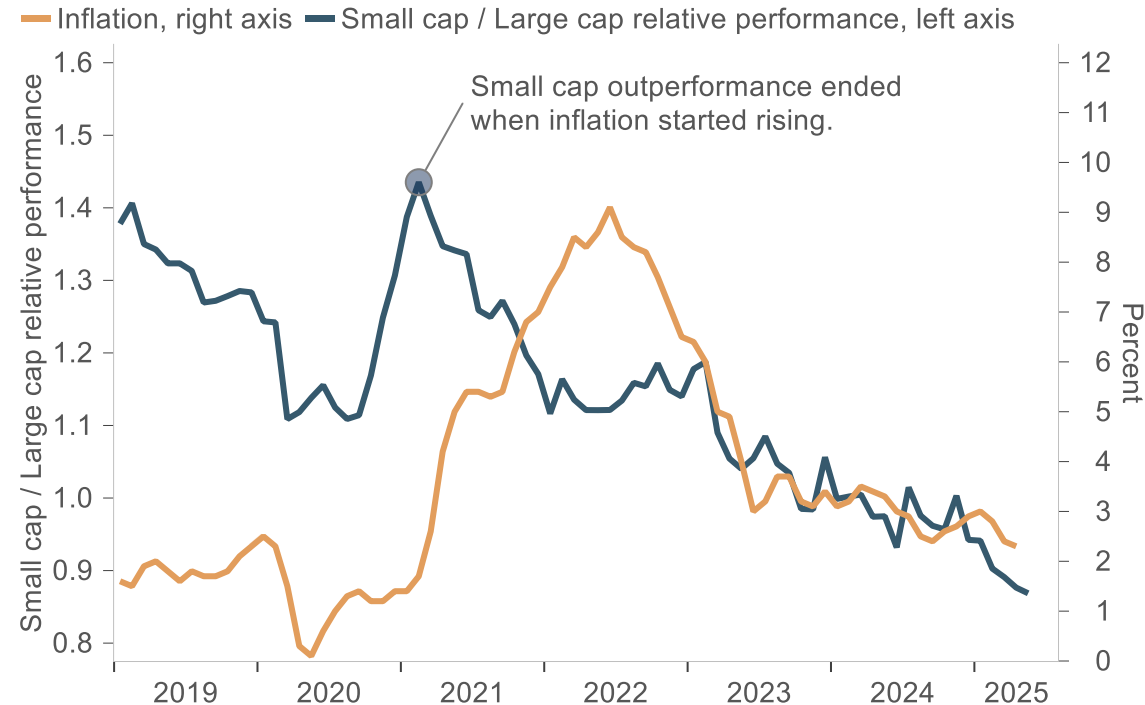


Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, June 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P 500 Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Large caps could outperform as U.S. economic risks rise

However, we also maintain some small cap exposure, especially where we see structural opportunity linked to artificial intelligence.

Small caps have been hit hardest by inflation and higher rates



- The equity market recovery from April 2022 has been driven by large cap tech stocks. We expect this to continue as U.S. economic activity slows and investors favor the historical resiliency of large companies.
- Large cap equities tend to hold less floating-rate debt than small caps do, which is why they have outperformed as interest rates have risen.

When should I buy small caps?

- It's primarily about the cycle: small cap outperformance typically occurs when the economy is rebounding, unemployment is falling, and corporate earnings growth is strong.
- This cycle, higher rates have weighed on small-cap performance. With persistent upward pressure on long-term Treasury yields, refinancing risks are likely to remain elevated, further constraining small-cap valuations.
- However, small caps saw a sharp rebound recently following the July inflation release last year, demonstrating the potential benefits of diversification. Though we believe the market's "soft landing" assumptions are liable to shift, the path is always bumpy, and some diversification can be valuable.

The small cap complex may offer overlooked growth opportunities

- Within the asset class, we think there are pockets of opportunity where investors can capitalize on structural themes like the building-out of artificial intelligence (AI).
- Small and medium-sized profitable growth companies, for instance, may offer exposure to [artificial intelligence](#) development at attractive valuations.

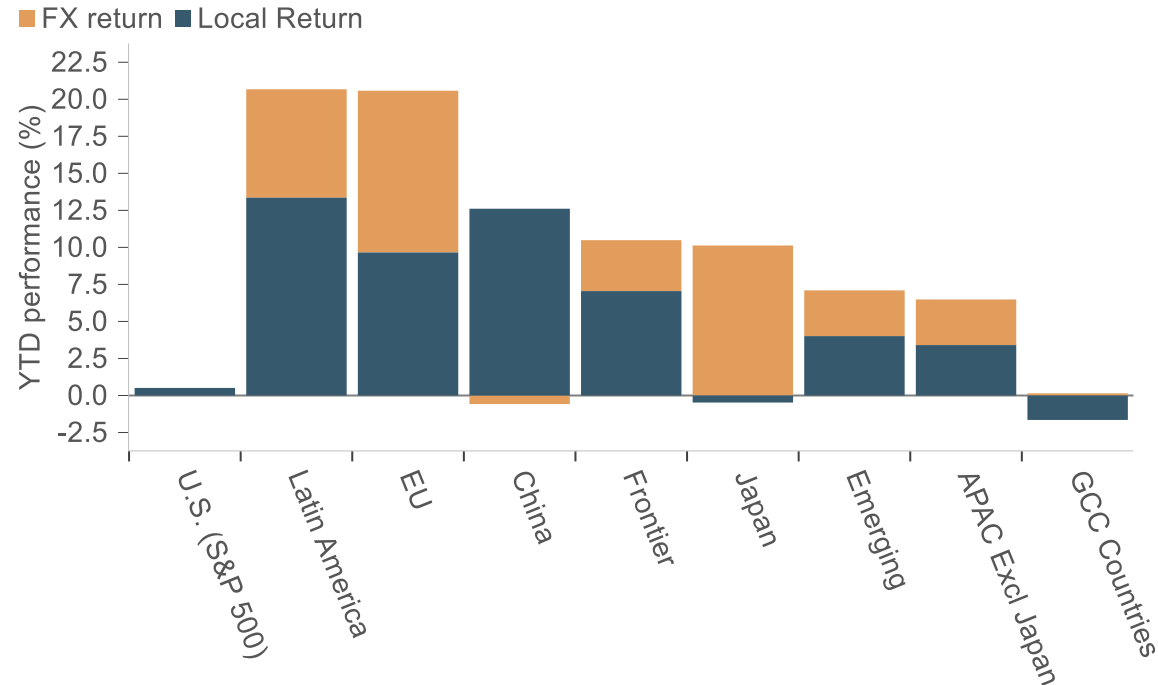
TAKEAWAY: At this phase of the cycle, where growth is moderate but likely slowing, large caps could outperform. Small caps may have brief moments in the sun, particularly when market rates move lower, but we aren't overly bullish on small caps until growth can re-accelerate. That said, we believe small caps offer overlooked growth potential, especially those companies with exposure to the artificial intelligence boom and profitable technology.

International equities: reassessing global allocations amid U.S. policy changes

Will international markets thrive or struggle if the U.S. turns inward?

U.S. markets have started 2025 lagging international peers

Equity market performance for a USD based investor



Sources: New York Life Investments Global Market Strategy, MSCI, S&P Global, Macrobond, June 2025. Each country, except for the U.S., is represented by the MSCI index covering the equity market of that country. The U.S. is represented by the S&P 500. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Rebalancing the U.S. / non-U.S. equity allocation

- The extent of fiscal and deficit spending has been a key driver of U.S. equity returns, and the U.S. has consistently outspent its peers. If the U.S. starts to rein in spending while others ramp up, a more balanced U.S./non-U.S. allocation could make sense.
- For Europe, this is the strongest relative start to a year since 2000 (**chart**). Investors may be pricing in a “peace dividend” on the prospect the Russia-Ukraine war comes to an end. The reconstruction effort is also likely to generate significant economic activity.

Across cycles, international equities offer investors the opportunity to capture sector and business cycle diversification

- Sectors: The S&P 500 is overweight the technology and communications sectors. Europe and Japan have more exposure to cyclical sectors like industrials and consumer discretionary. Relative valuations, especially in Europe, remain attractive for bottom-up stock picking.
- Cycle: Because the global economic cycle is desynchronized, a diversified international exposure can help investors capture recovery cycles globally.

Portfolio strategy

- Many investors are structurally under allocated to international equities, limiting the potential of this asset class to provide sector and business cycle diversification.
- In conventional portfolio allocation, international equities make up roughly one-third of total equity exposure. So, in a standard 60/40 portfolio comprised of 60% equities and 40% bonds, international equities would constitute 20% of the portfolio.

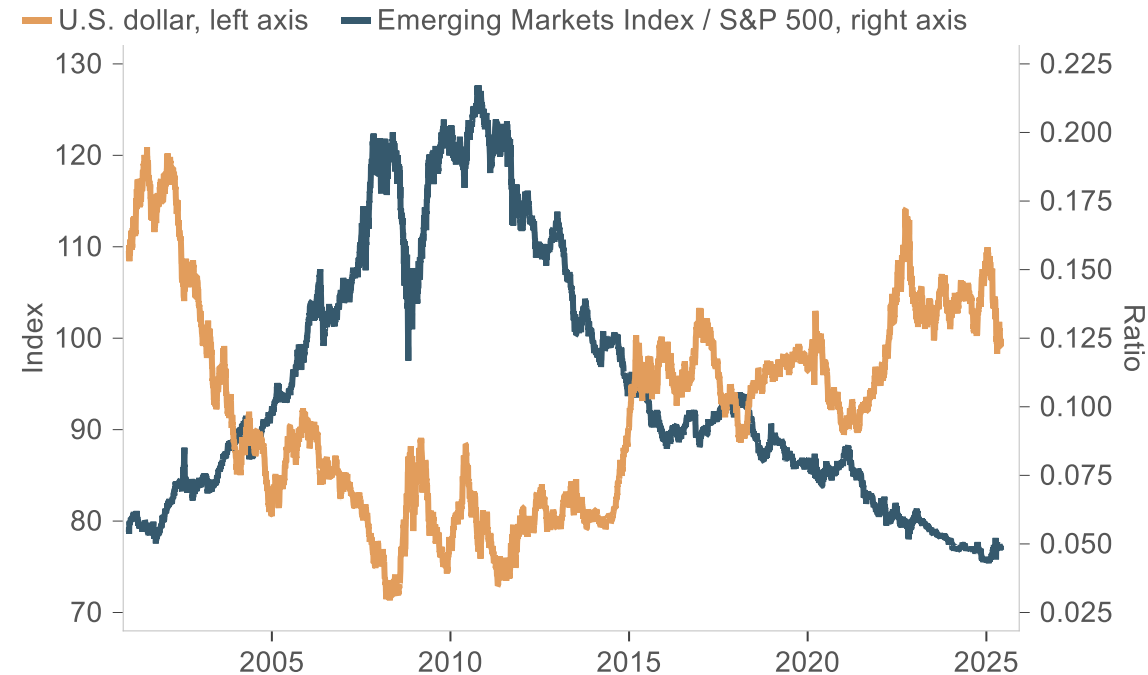
See our [high conviction question](#) on this topic for more context.

TAKEAWAY: We believe that structural exposure to international equity can help investors to capture sector and business cycle diversification. Tactically, policy changes may necessitate rebalancing – increasing allocations to economies benefiting from government spending while reducing exposure to those facing cutbacks.

Emerging market equities have potential to outperform but still face headwinds

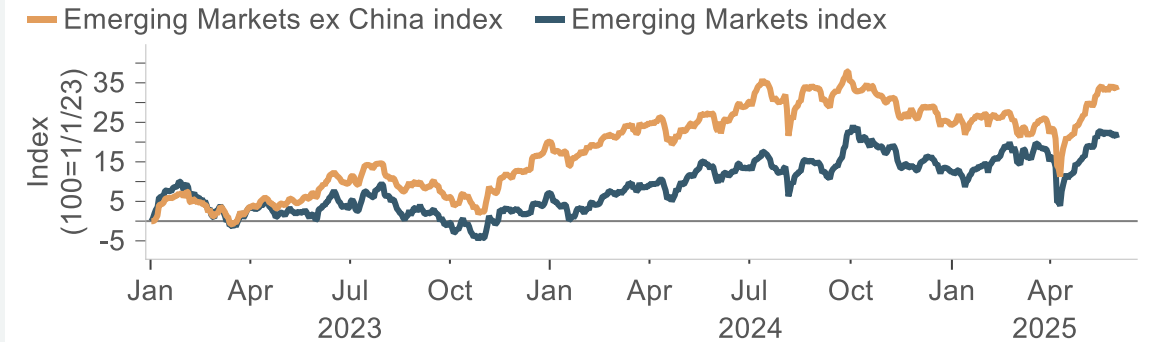
Some markets stand out, but the asset class may have difficulty outperforming as global growth slows.

A weaker dollar is likely to support EM central bank cutting and equity performance



Sources: New York Life Investments Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), Macrobond, June 2025. The S&P 500 is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Emerging Markets index is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. It is not possible to invest in an index. Past performance is no guarantee of future results.

EM equity outperformance may be difficult with China weighing down the index



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. Emerging Market index is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap companies across EM countries. Emerging Markets ex China index is represented by the MSCI EM ex China which excludes China from the MSCI EM index. It is not possible to invest in an index. Past performance is no guarantee of future results.

- Emerging market (EM) central banks led the cycle on raising interest rates; many are now more advanced in their easing cycles. A weaker dollar reduces currency risk on USD-denominated debt (**left chart**), providing EM central banks room to cut rates and support their economies amid shocks to global trade.
- Many investors are under-allocated to EM equities, and so a shift in investor sentiment could have a significant impact on flows and therefore prices.
- China's economic performance remains a key risk for EM equity (**above chart**). Fiscal stimulus may step in to support the trade-related slowdown, but China's structural challenges remain.

TAKEAWAY: With U.S. interest rates likely peaked, EM equities may see greater interest throughout the year; nevertheless, we expect currency hedging and active management are key for success in the asset class.

6 Fixed income

Insights

- [Credit overview](#)
- [Investment grade](#)
- [High yield](#)
- [Bank loans](#)
- [Convertible bonds](#)
- [Municipal bonds](#)

Today's macro backdrop supports high conviction in credit allocation

Our expectation for more muted equity market returns, paired with rising economic risks, prompts us to lean into fixed income allocation.

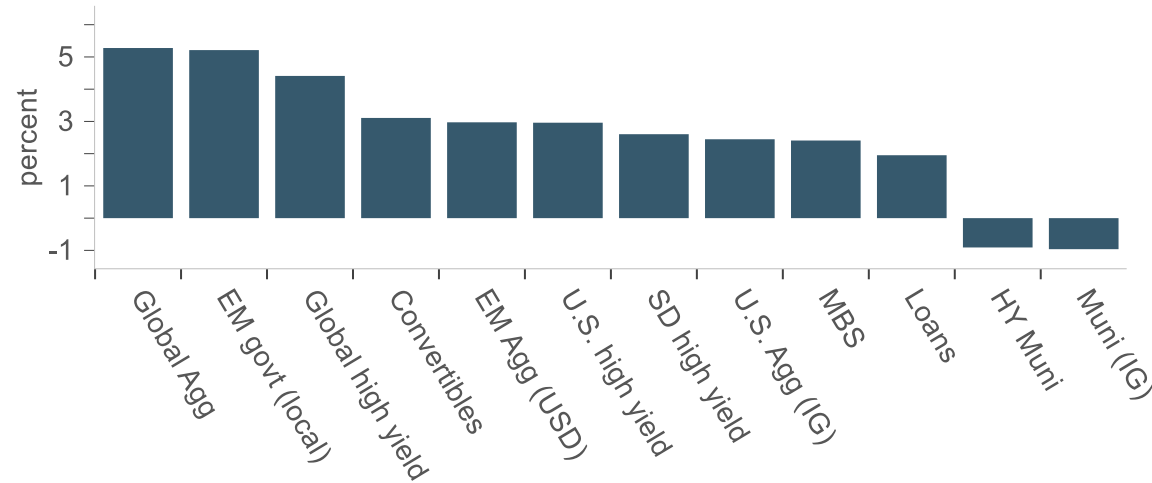
- Policy has widened the potential for yield volatility and created new fears about credit quality in an economy that is expected to slow. Our “solve” for both of these concerns is to stay short duration across credit types in the U.S.: IG, HY, muni.
- Spreads have re-tightened, creating price risk for U.S. corporate credit. However, the backdrop of credit quality has improved over time, and still-strong income generation potential make us confident in credit allocation. Spreads could re-widen due to continued volatility in the Treasury curve and additional risk priced into corporate credit yields, increasing investor

value. Even through a period of policy-induced slower growth, we are not concerned about systemic credit quality.

- Given a widening potential range for Treasury yields (3.5-5.0%), Treasury duration is not our favorite place to take risk. We prefer short duration Treasury and corporate credit exposure, including high yield and floating rate loans, balanced with longer duration exposure in core, core-plus, and taxable municipal bonds.

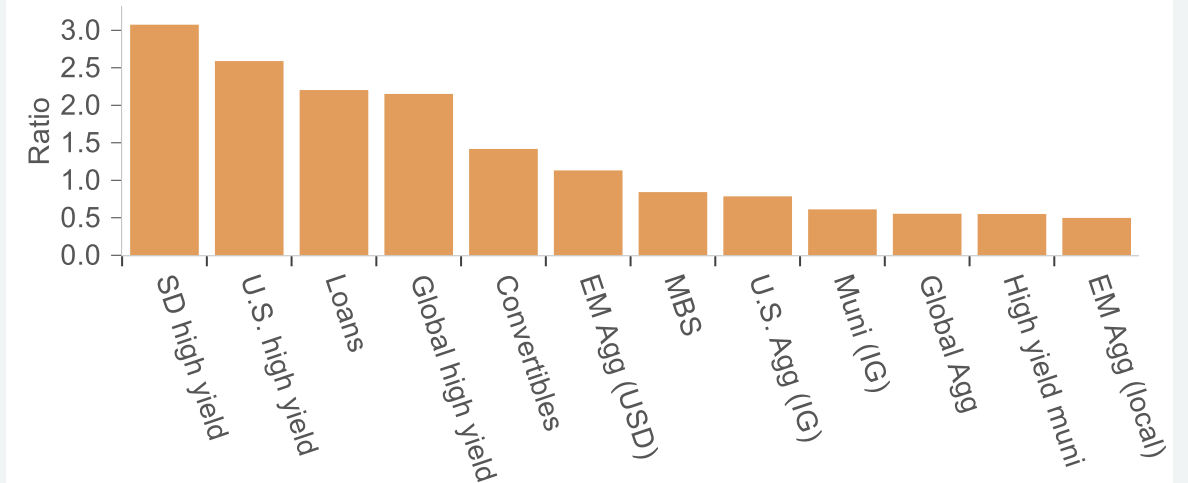
Ex-U.S. fixed income has outperformed in 2025

Returns from January 2025



When credit quality questions rise, we prefer maximizing yield per duration

Yield per duration (prior 30-day average)

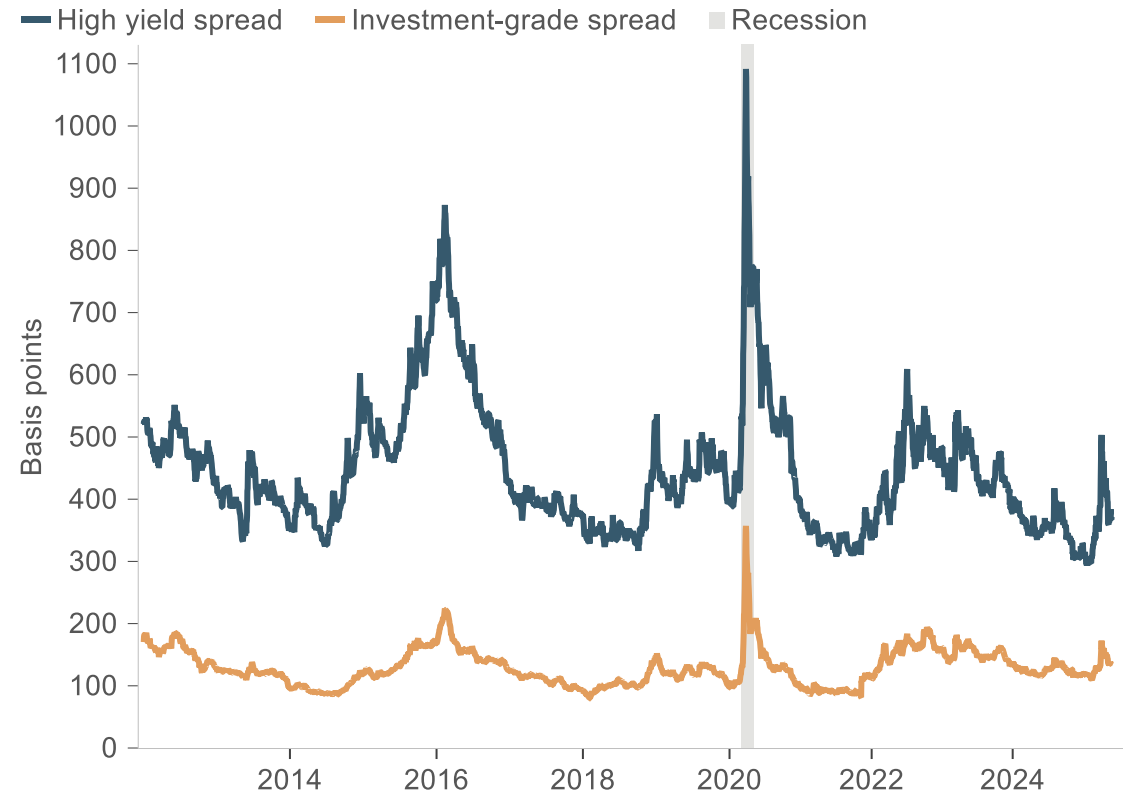


Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, may 2025. Convertibles represents the Bloomberg U.S. Convertibles Liquid Bond Index. EM Agg represents the Bloomberg Emerging Markets (EM) Hard Currency Aggregate Index- a flagship hard currency EM debt benchmark. EM govt represents the Bloomberg Emerging Markets Local Currency Government Index-a flagship index that measures the performance of local currency Emerging Markets (EM) debt. Global Agg represents the Bloomberg Global Aggregate Index- a flagship measure of global investment grade debt. Global high yield represents the Bloomberg Global High Yield Index-a measure of the global high yield debt market. Loans represents the Bloomberg US Leveraged Loan Index-measures the institutional leveraged loan market. Muni represents the Bloomberg U.S. Municipal Index-covers the long-term tax-exempt bond market. U.S. Agg represents the Bloomberg US Aggregate Index-a broad-based benchmark that measures the investment grade bond market. U.S. high yield represents the iBoxx USD Liquid High Yield Total Return Index-measures the sub-investment grade, corporate bond market. U.S. MBS represents the Bloomberg US Mortgage Backed Securities (MBS) Index-tracks agency mortgage backed pass-through securities. U.S. high yield muni represents the Bloomberg Muni High Yield Total Return Index. Short duration (SD) high yield represents the Bloomberg US High Yield Ba/B 1% Cap 1-5 Year TR Index. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Investment grade bonds are a compelling place to stay invested

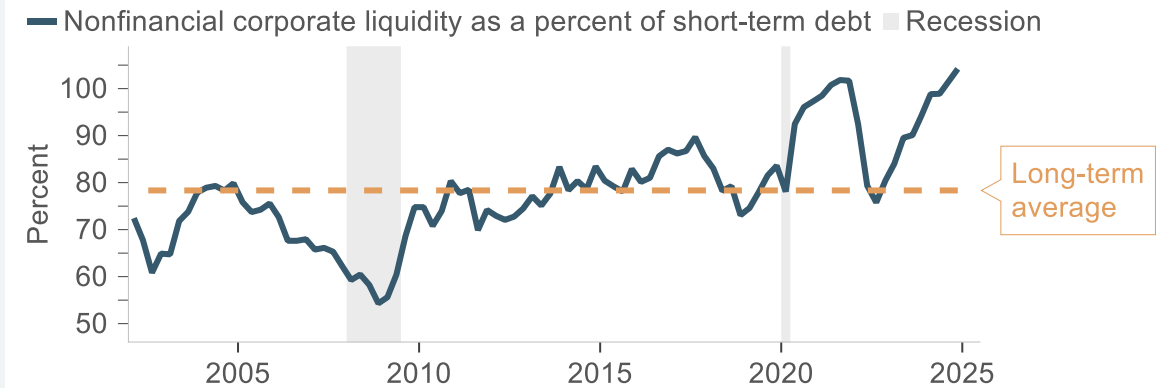
We expect spreads to widen from here, but for credit quality to remain resilient.

Spreads have remained tight through the Fed's hiking cycle



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, June 2025.

Corporates' financial buffers are at a healthy level



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, June 2025.

- Credit spreads have returned to remarkably tight levels relative to history (**left chart**). Tight spreads are attributed to (1) a buildup of corporate cash, (2) strong credit quality, and (3) the concentration of investment grade and high yield issuers in consumer sectors, which have been especially strong this cycle. While we expect economic growth to slow, we don't expect spread widening to be driven by an inability of IG companies to pay their debts. Businesses are maintaining a healthy cash balance (**right chart**), which should help firms weather pressure on margins and operating environment uncertainty.
- This economic environment underscores the importance of discerning borrowers' adaptability to decelerating growth and a prolonged period of higher inflation and interest rate volatility, which may require an active and dynamic approach to security selection.

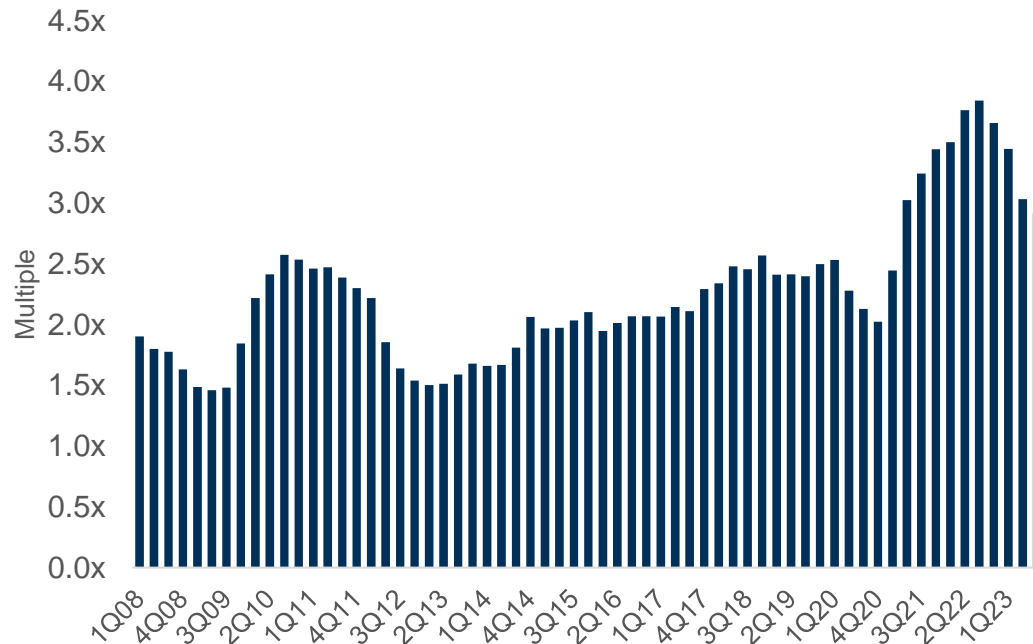
TAKEAWAY: Since the pandemic, companies have increasingly adopted a conservative approach to managing their balance sheets, effectively limiting overall debt growth. This trend has created an attractive backdrop for both investment grade and high yield corporate bonds. While we expect credit spreads to widen as the economy decelerates and rate volatility rises, strong credit quality helps us see past any temporary rate spikes, focusing on strong total return potential.

U.S. high yield remains one of our highest conviction ideas

Even amid mounting economic uncertainty, we maintain a positive outlook on U.S. high yield credit – increasingly supported by attractive pricing.

Strong interest coverage multiples suggest high yield credit could see further outperformance

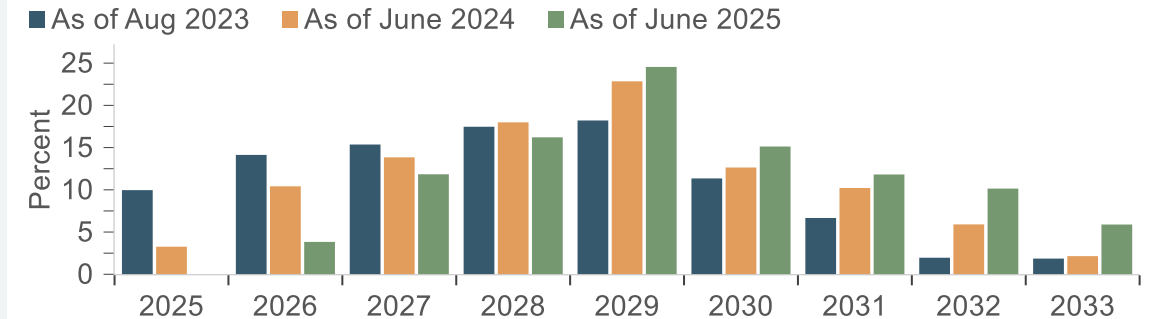
High yield interest coverage: EBITDA-CapEx/Interest expense



Sources: New York Life Investments Global Market Strategy, JP Morgan, May 2025. Data as of May 2025. EBITDA: earnings before interest, taxes, depreciation, amortization; CapEx: capital expenditures.

The high yield "maturity wall" is far from an imminent threat to corporate health

Share of high yield corporate benchmark maturing each year



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, June 2025. 2033+ represents maturities for 2033-2050. Benchmark: Bloomberg U.S. Corporate High Yield Total Return Index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

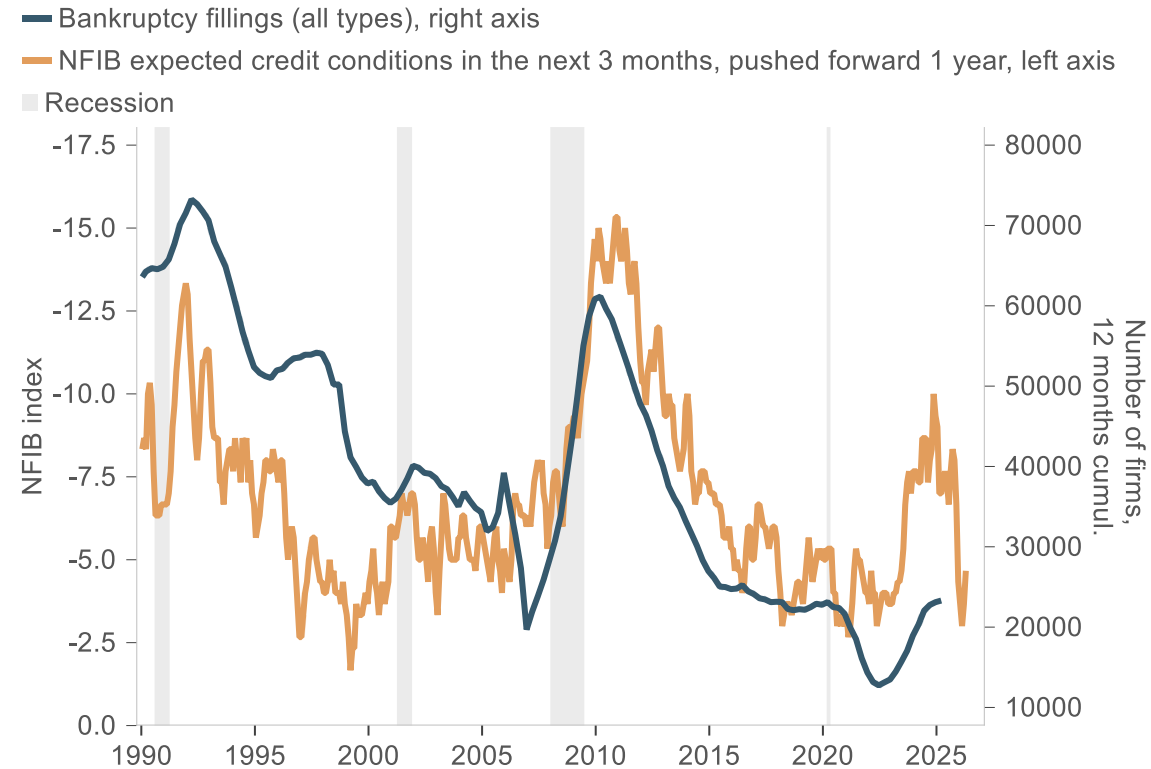
- The U.S. high yield asset class has improved in quality thanks to changes in corporate financing structure since the financial crisis, and thanks to pandemic-era support programs.
- Cyclically, leverage and interest expense levels in high yield are healthy (**left chart**). We have high conviction that fundamentals remain strong, but as general macro risks rise, issuer selectivity becomes even more critical.
- Over half of major HY benchmark weight is now rated BB or higher. We see this quality at work in the maturity wall: high yield issuers in the U.S. have been incredibly successful at pushing out their obligations (**right chart**).
- In the event that spreads widen in U.S. HY, we see this as a value creation opportunity.

TAKEAWAY: High yield is not typically an asset class investors hold as economic risks rise, but we believe high quality, high yield borrowers could provide significant value in a portfolio this year. For investors concerned about credit quality, macro volatility, or policy uncertainty, the relatively short-duration exposure of high yield credit is a compelling option.

Bank loans may be out of room to run

Bank loans are often the asset class that reveals credit quality concerns first. Our bias toward relative credit quality makes selection paramount.

We expect bank loans to struggle if bankruptcies rise



Sources: New York Life Investments Global Market Strategy, National Federation of Independent Business, U.S. Federal Courts, NBER (National Bureau of Economic Research), Macrobond, June 2025.

Are floating-rate bank loans the place to be when economic risks are rising?

- Currently, overall yields appear to compensate investors for the greater degree of credit quality risk in the asset class, which stems from smaller companies with less of a balance sheet buffer against economic pressures.
- But in line with our view that large cap equities are likely to outperform small cap, and that higher credit quality is likely to outperform, bank loans may be out of room to run. We expect a slowing economic environment to be paired with accelerating inflation, meaning that floating rate borrowers may be crunched from both sides: slowing demand paired with more-expensive-than-expected borrowing costs.

Portfolio strategy

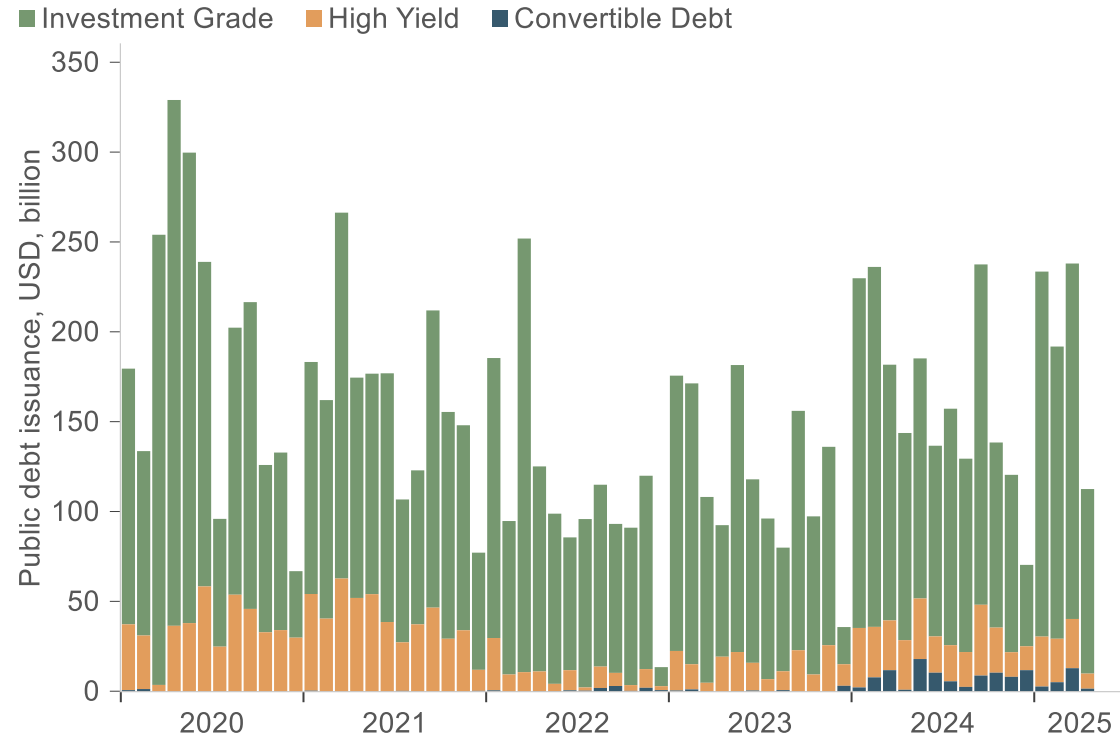
- We believe bank loans can be an important component of diversified global bond exposure. Because of their relatively lower credit quality, security selection and credit quality analysis is paramount when operating in this asset class in an unfavorable macro environment. Within floating rate bank loans, we prefer portfolios that are overweight senior secured loans with low leverage. We are closely monitoring for signs of credit quality slippage.

TAKEAWAY: In line with our view that economic risks are rising, floating rate bank loans are one of the first asset classes where we expect to see credit quality slippage. Yields are higher than they were expected to be at this point and have compensated investors for credit quality risks, but this dynamic has lost steam. Selection is paramount.

The tide is turning in favor of convertible bonds

Convertible bonds are well positioned to hedge downside risk while offering similar upside potential in the event of a broad market rebound.

Convertibles have seen renewed issuance, corresponding with stronger performance



Sources: New York Life Investments Global Market Strategy, SIFMA (Securities Industry & Financial Markets Association), Macrobond, June 2025.

What makes convertible bonds special?

- In many ways, convertible bonds offer the best of both worlds. Like equities, convertible bonds offer unlimited upside potential from the embedded call option on the issuer's common stock. Like bonds, converts offer downside protection.
- Over a complete market cycle, convertibles generally participate in about 60-80% of equity market upside and 50% of the downside.
- Most convertible bonds have a short duration of approximately 2-3 years, limiting their sensitivity to interest rate fluctuations.

Tactical market outlook:

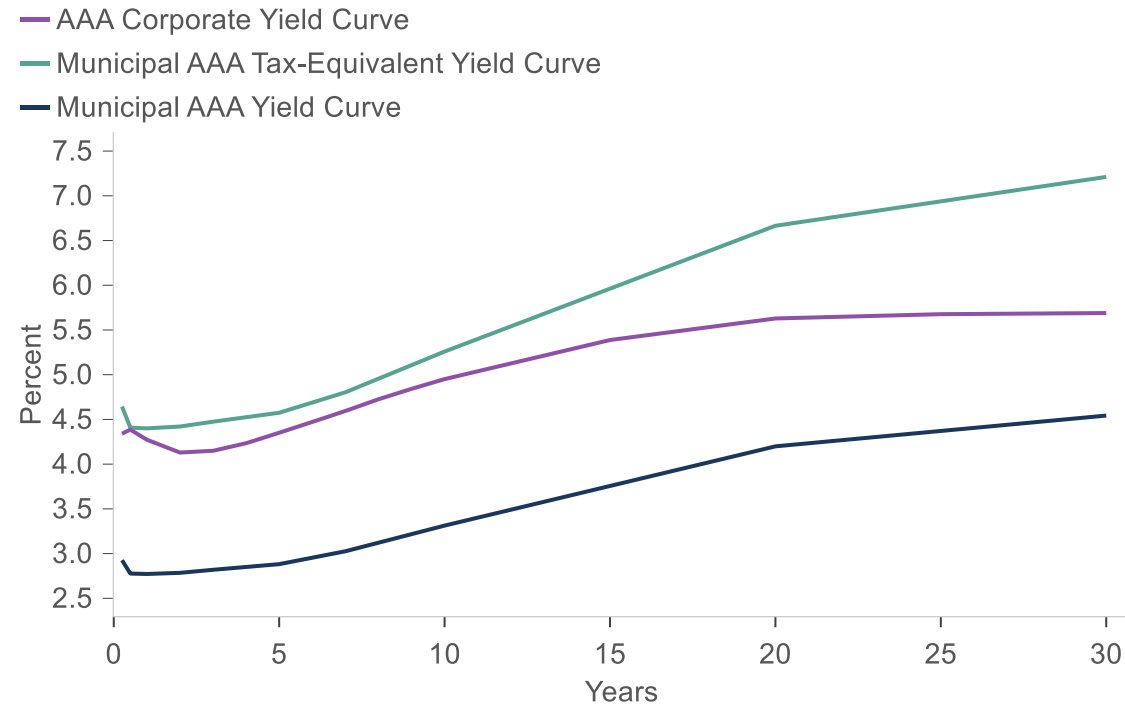
- Issuance: Issuance was strong in 2024, suggesting lower interest rates for issuers are balancing well with investor demand for upside participation in the equity features of convertibles. The market saw \$45B of new issuance through August compared to \$33B over the same period last year. Approximately one-quarter of new convertible issuance last year had an investment grade rating. Issuance is expected to increase as investment grade companies with debt maturing may be drawn to the convertible market, as they can no longer issue bonds yielding 2% to 3%.
- Valuation: The U.S. convertible market is weighted towards mid and small-cap companies which now have significantly lower valuations than large caps. While we are not overweight the SMID cap space in our equity view, we find the value proposition of converts to be focused on their blended equity/bond characteristics rather than SMID cap focus.
- For investors who believe market gains can broaden but the economy may slow, convertible bond exposure could replace small- and mid-cap exposure, offering potentially similar risk/return opportunities plus the defensive bond features.

TAKEAWAY: Convertible bonds are a well-positioned defensive asset class, offering yield and low volatility. As some corporate bond issuers are priced out of the investment grade and high yield markets, we expect to see strong issuance that is both less expensive for issuers while offering a compelling risk-return dynamic for investors.

Munis provide a diversified approach to credit and duration exposure

Strong credit fundamentals make municipal bonds an attractive credit diversifier in our view, but we are wary of flows amid macro uncertainty.

Muni's tax equivalent yields exceeds AAA corporates' at longer durations



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, June 2025. The AAA corporate yield curve is populated with USD denominated senior unsecured fixed rate bonds issued by U.S. companies with a rating of AA+ , AA or AA-. The Municipal AAA yield curve is populated with high quality U.S. municipal bonds with an average rating of AAA from Moody's and S&P. The tax-equivalent yield curve assumes a 37% tax rate. Duration of fixed income securities is a measure of a security's price sensitivity to changes in interest rates, measured in years.

Tailwinds & outlook for municipal bonds

- We have a positive fundamental outlook for municipal bonds. Muni investors seem to be recognizing the benefits of locking in tax-exempt income at higher-than-expected rates. Yield curve volatility makes this decision more compelling as money market yields (cash yields) face increasing Fed policy uncertainty. Like corporate bond issuers, municipalities are also well capitalized with healthy reserve balances. This strong starting point provides a needed cushion should revenues and federal aid decline. This also implies that, due to economic uncertainty, issuance is not expected to pick up in 2025.
- The benefit of tax-exemption is amplified in the current "higher for longer" yield environment. There have been some calls for the removal of the muni tax exemption, but our teams do not find this proposal to be a credible threat.

This said, municipal bonds rely heavily on volatile retail flows.

- When yield curve volatility causes wild swings in how municipal bond funds trade relative to NAV, munis have fallen victim to their skittish investor base.
- Munis may see relative demand improve due to quality; 13 states now have higher Moody's credit ratings than the U.S. sovereign.

Munis as a critical component of our duration view

- In our view, an inverted or flat yield curve gives investors little incentive to take excessive duration risk in duration in U.S. Treasuries; however, not all duration is created equal.
- The vast majority of issuance in the municipal curves remains upward sloping, which continues to compensate investors for longer-term risk. Tax-free municipal bonds can also balance shorter-duration allocations in the money market or high yield corporate bonds.
- We also like *taxable* municipal bonds as a duration-balancing, long-infrastructure play. Higher credit quality and diversified credit exposure provide additional benefits to this portfolio construction technique, in our view.

TAKEAWAY: Instead of adding duration in Treasuries, investors can consider interest rate risk where it pays: on the municipal bond curve. While federal policy uncertainty is likely to affect the muni environment in 2025 along with all other asset classes, we do not see this as a reason to avoid the tax benefits and/or relative quality of the asset class.

7 Alternatives

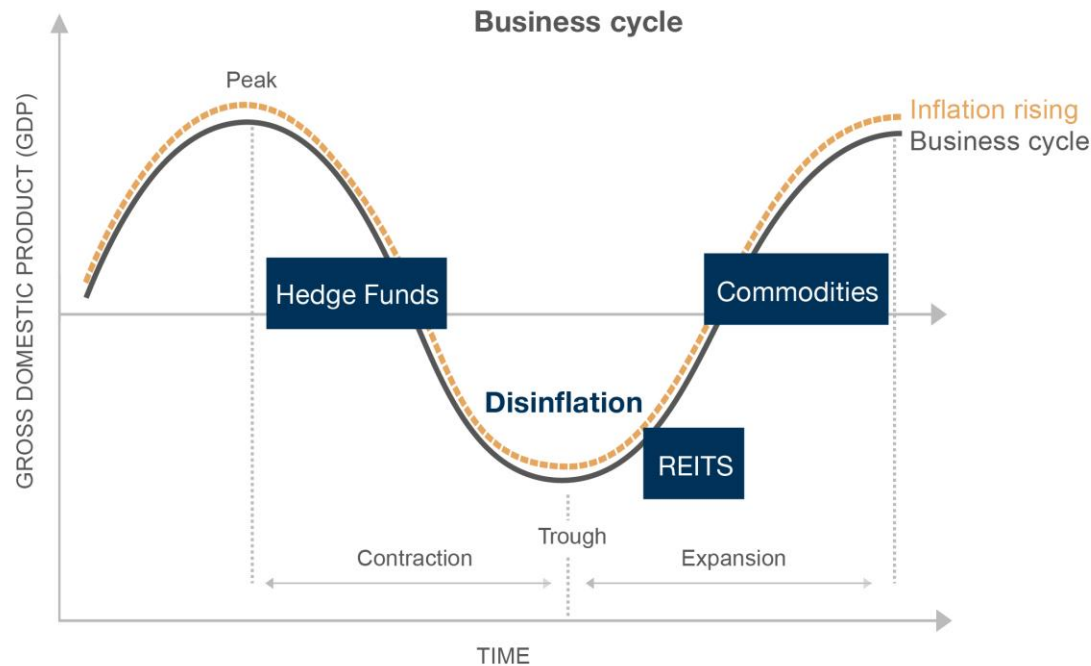
Insights

- [Alternatives through the cycle](#)
- [Infrastructure](#)
- [Commodities](#)
- [Liquid real estate](#)

Alternative investments across the business cycle

Plus, asset weighting recommendations based on quantitative portfolio risk/return analysis.

How alternative assets might perform at different stages of the economic cycle



Sources: New York Life Investments Global Market Strategy, June 2025. For illustrative purposes only

- Alternative investments offer diversification potential and are some of the least correlated public and private investment opportunities.
- Though potentially less liquid than traditional investments, performance is typically less sensitive to the movements of global markets – instead, driven by diverse sources of returns.

How much alternatives exposure do I need:

- A suitable range typically falls between 5% and 25% of a portfolio.

Commodities

- Commodities tend to benefit from sticky and rising inflation and have performed well year-to-date. The asset class exhibits very little correlation to both stocks and bonds making it a solid diversifier and inflation hedge.
- Allocating between 1% and 7% can provide diversification and protection against inflation. Equities should be the primary source of funding this allocation.

Hedge Funds

- Not all hedge fund strategies are created equally. With equity markets rising, equity-oriented strategies like long/short and event-driven could be successful in this environment.
- A range of 1% to 12% allows for exposure to skilled fund managers and unique strategies. Typically, this allocation can potentially be sourced from equities.

REITs

- Concern about commercial real estate has impacted investor sentiment but we think this has the potential to create investment opportunities.
- Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation—and can potentially be sourced primarily from equities.

TAKEAWAY: Given the risk of persistent and rising inflation, we think commodities could offer the highest risk-adjusted returns, though investors could benefit by adding exposure across alternatives.

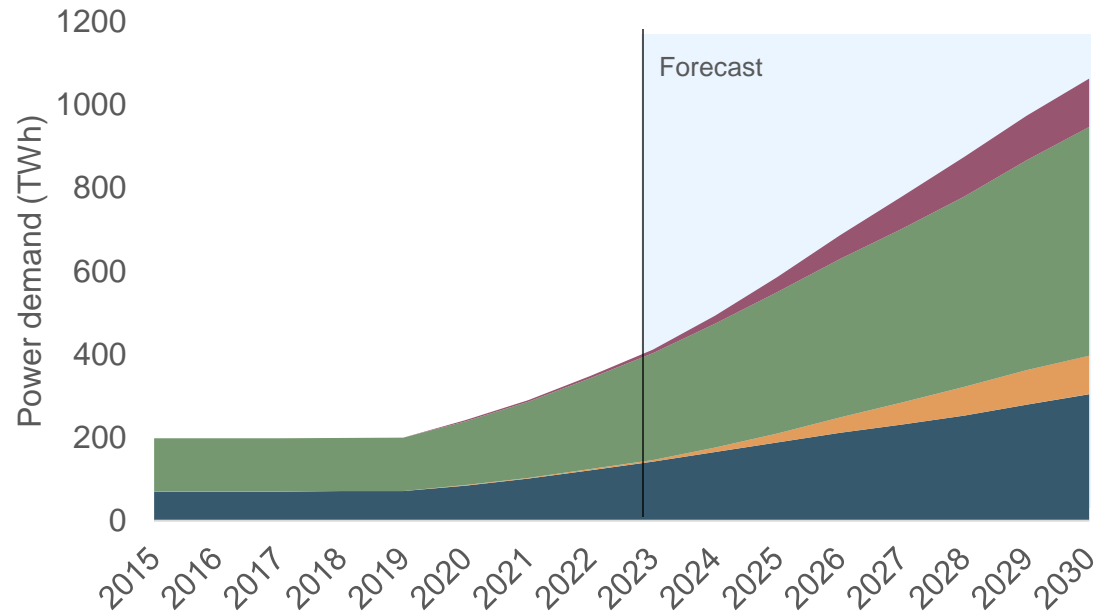
Infrastructure is one of our highest conviction structural themes

The structural case for infrastructure is expanding just as the cyclical case (lower rates) begins to support the asset class.

AI is expected to boost data center power demand by 160% and with it, the need for more digital infrastructure

Data center power demand

■ U.S. ex-AI ■ U.S. AI ■ Rest of world ex-AI ■ Rest of world AI



Sources: New York Life Investments Global Market Strategy, IEA, Goldman Sachs Research, June 2025. TWh = terawatt hours of electricity

A secular investment case for infrastructure

- We see infrastructure as a key beneficiary of secular global investment trends. A changing economic landscape (artificial intelligence), geopolitical trends (U.S.-China competition), and a renewed focus on resource access (after the COVID-19 pandemic) has driven a surge in public and private sector investment in infrastructure. We expect this trend to persist.
- We believe that the supply chains experiencing the most change are those which may benefit the most from investment: digital transition and artificial intelligence, green transition and electrification, and supply chain re-globalization. As a result, we have particularly high conviction around global infrastructure investment with a focus on digital infrastructure, green and brown energy, utilities, and communications.
- Infrastructure projects are increasing funded through the sale of taxable municipal bonds.

Portfolio construction benefits in equity

- Global equity infrastructure may close a frequent investor gap in international exposure.
- The asset class offers a potential inflation hedge as cash flows are often linked to inflation, and on the cost side, inflation protection is often written into long-term contracts (**chart**).

Portfolio construction benefits in fixed income

- Issuance of taxable municipal bonds increased in recent years due to the *Tax Cuts & Job Act* of 2017 which limited the issuance of tax-free municipal bonds.
- Investors may be less familiar with taxable municipal bonds, especially outside the U.S. where municipal bonds are less frequently used. We believe this asset class may provide additional means of generating yield, with the benefit of higher quality and diversified credit exposure.
- We also like taxable municipal bonds as a duration-balancing, long-infrastructure play.

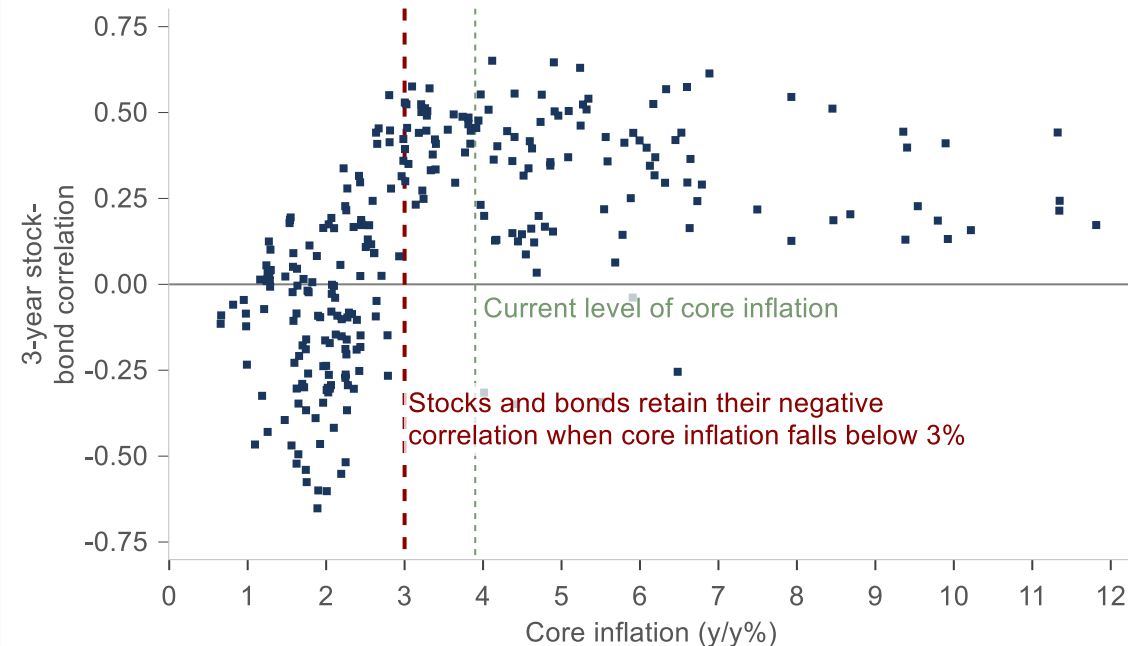
TAKEAWAY: The global economy is shifting, and we believe that infrastructure provides a durable opportunity to capture that change. We perceive infrastructure as a structural allocation in both equity in fixed income, allowing investors access to these trends as well as important portfolio construction benefits. Importantly, an interest rate cutting cycle has historically supported sectors such as utilities and energy that tend to make up important portions of the infrastructure asset class, adding potential cyclical firepower to an already strong structural case in our view.

Higher inflation points to a structural allocation to commodities

Rising demand for resources amid restructuring supply chains provides a compelling investment backdrop for commodities.

Commodities play a more important role in portfolio allocation when inflation is high

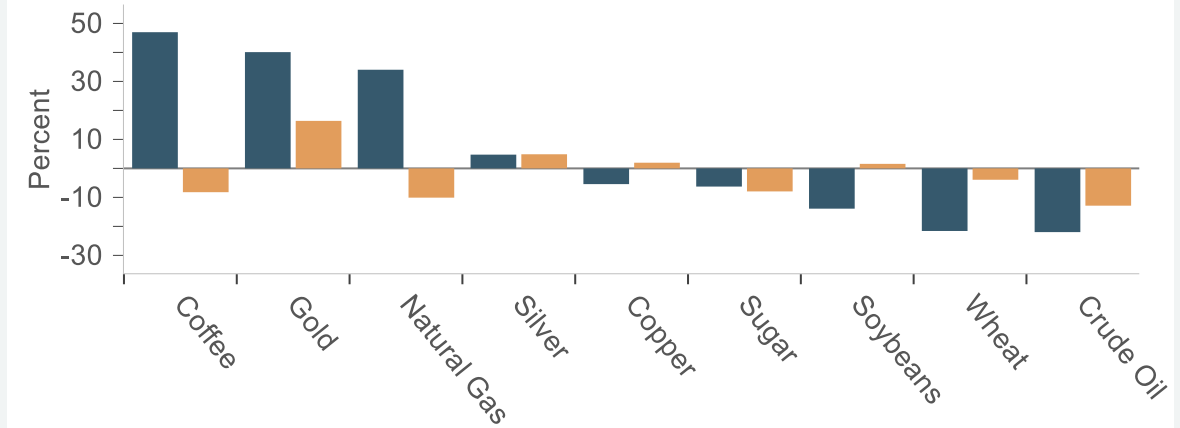
Stock-bond correlation works better when inflation is closer to target



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), S&P Global, U.S. Department of Treasury, Macrobond, June 2025. Stocks are represented by the S&P 500. Bonds are represented by the monthly return on a U.S. 10-year government bond. Core inflation is represented by the Core CPI index. Core CPI is represented by the core Consumer Price Index. CPI is a measure of the average change over time in the prices paid for a market basket of consumer goods and services. Core CPI excludes volatile food and energy prices. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is not possible to invest in an index. Past performance is not a guarantee of future results.

Active management is key when choosing a commodity allocation

■ 12-month return ■ 3-month return



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond, June 2025.

- When inflation is high, stock-bond correlation tends to be higher. Investor portfolios may therefore be less diversified than finance theory would suggest (**left chart**).
- Since the cause of that potentially lower diversification is high inflation, investors could consider increasing their allocation to commodities which may help to manage both risks.
- Not all commodities trade equally (**right chart**); active management can help investors identify commodities with positive momentum (positive 3-month and 12-month returns) and avoid those with negative momentum (negative 3-month and 12-month returns).

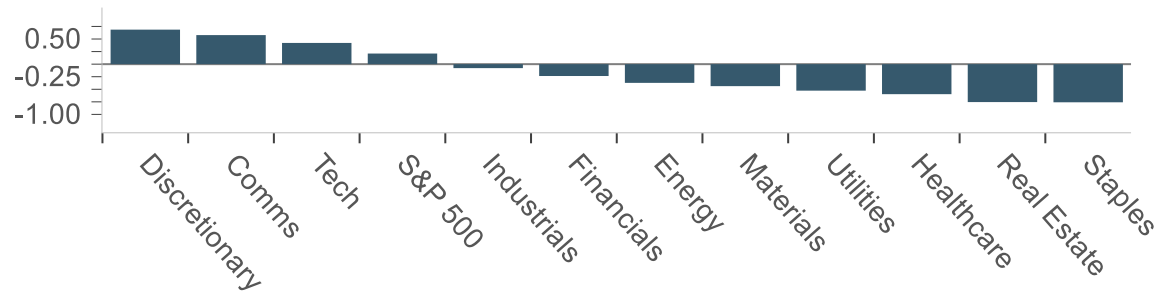
TAKEAWAY: We think investors should consider adding commodities exposure as a hedge against persistent inflation and in response to global dynamics such as escalating trade tensions and the push for decarbonization.

Structural opportunities are opening in liquid real estate

Concern about pockets of commercial real estate, such as office, has impacted investor sentiment, creating potential opportunities.

Real estate equities have the lowest correlation with a change in rates - the asset class should outperform as rates come down

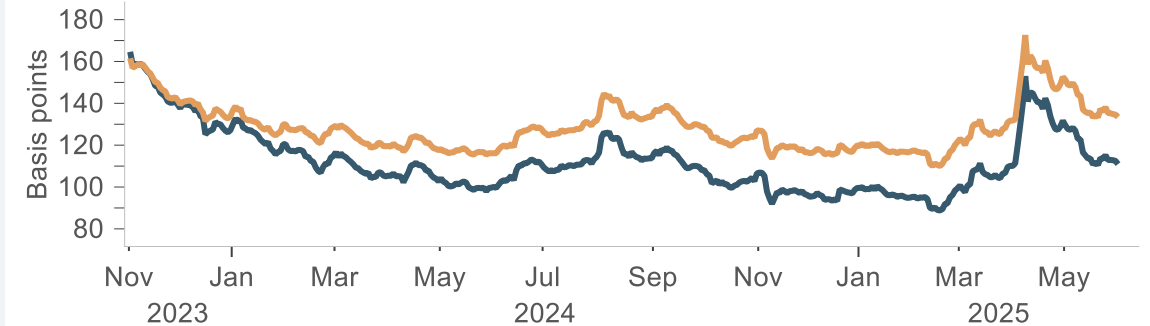
6-month correlation of 1-month changes



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, June 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. It is impossible to invest in an index. Past performance is not a guarantee of future results.

Debt markets don't appear overly concerned over commercial real estate stress

— All Sectors OAS — Financials OAS



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. Investment-grade financials OAS is represented by the option adjusted spread of the Investment Grade Financials (Sr) sector. All sectors OAS is a weighted average of the option adjusted spread of the Investment Grade All Cash Bonds sector.

- U.S. commercial real estate (CRE) experienced a one-two punch in the past several years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has been sticky in the U.S. Then came the interest rate hiking cycle of 2022–2023.
- As the economy slowed, questions were raised about whether write-downs in CRE valuations could prompt a new wave of banking losses, given the outsized exposure of small and mid-cap (SMID) banks to CRE loans.
- A majority of investors, bankers, and regulators are highly focused on CRE risks. That could imply any issue bubbling up would be quickly addressed as it was in April of 2023 and may be why bank bonds are outperforming the broader market (**right chart**).
- Despite a general downturn in the asset class, liquid real estate stood out as the top performer when yields declined at the end of 2023. Notably, the sector has one of the lowest correlations with changes in yields. We expect further cuts from the Fed could benefit the asset class (**left chart**).

TAKEAWAY: Liquid real estate could present opportunities for savvy investors. Lately, REITs haven't kept pace with the broader market, partly due to concerns about their exposure to office spaces and other less desirable assets. Yet, it's important to recognize the breadth of the REITs sector and the crucial role of active management. Wise portfolio managers have been focusing on the growing industrial and technological segments within the REITs market. We think it is worth noting liquid real estate stood out as the top performer when yields declined at the end of last year.

8 Private markets

Insights

- [Capital markets backdrop](#)
- [Allocation to private markets is growing and democratizing](#)
- [Key takeaways per asset class](#)
- [A global case for the lower middle market \(LMM\)](#)

Capital markets themes impacting the private markets

After two years of a slow-motion credit crunch in some areas of the private markets, we see four major transitions underway.

Global rates are moving lower



- Many central banks are cutting interest rates. Lower rates have improved investor confidence and borrower conditions, but rate levels are still high enough to provide attractive income generation potential.
- U.S. rates are stickier than those in other countries, but the bar for rate hikes from here is high.
- Rates volatility will be a feature of 2025 investing, but inflation and the labor market have mostly normalized for business operation.

Debt and equity can perform well at the same time. Allocating across geographies can provide access to different stages of the rate cutting and credit creation cycles.

Deal flow is returning



- Sponsor pressure for liquidity, sustained for the last several years, is finally driving improvements in exit activity.
- Policy uncertainty is currently masking hope for lighter regulations and less red tape in the market. This delay is expected to be temporary.
- Bid-ask spreads for high-quality assets have been reasonable. For lower-quality assets, bid-asks spreads show early signs of improving.

The slow-motion credit crunch in private markets is over. 2025 should be a strong vintage for new capital entering the market.

Private markets allocation is growing and democratizing



- Institutional allocations to private markets have grown even as interest rates have risen in recent years.
- Public equity concentration has reduced the average investor's overall portfolio diversification.
- Investors of all kinds want access to the early stages of value creation, and the "main street" engines of economic growth.

Competition and performance dispersion may increase. We believe there is an opportunity to diversify into smaller fund sizes, where market dynamics are less efficient and value creation opportunities can be more readily accessed.

Global megatrends are driving capital-intensive investments



- Global megatrends related to supply chain re-globalization, electrification, and digitization are changing the global economic model. Efficiency is no longer as important as access to and security of key resources.
- These transitions are driving a capital-intensive period of activity, creating sector and diversification opportunities.

Qualified Investors may benefit from a stronger medium-term economic backdrop. Demand for certain sectors and resources is likely to increase. Volatility in inflation, interest rates, and general macroeconomic conditions may be higher.

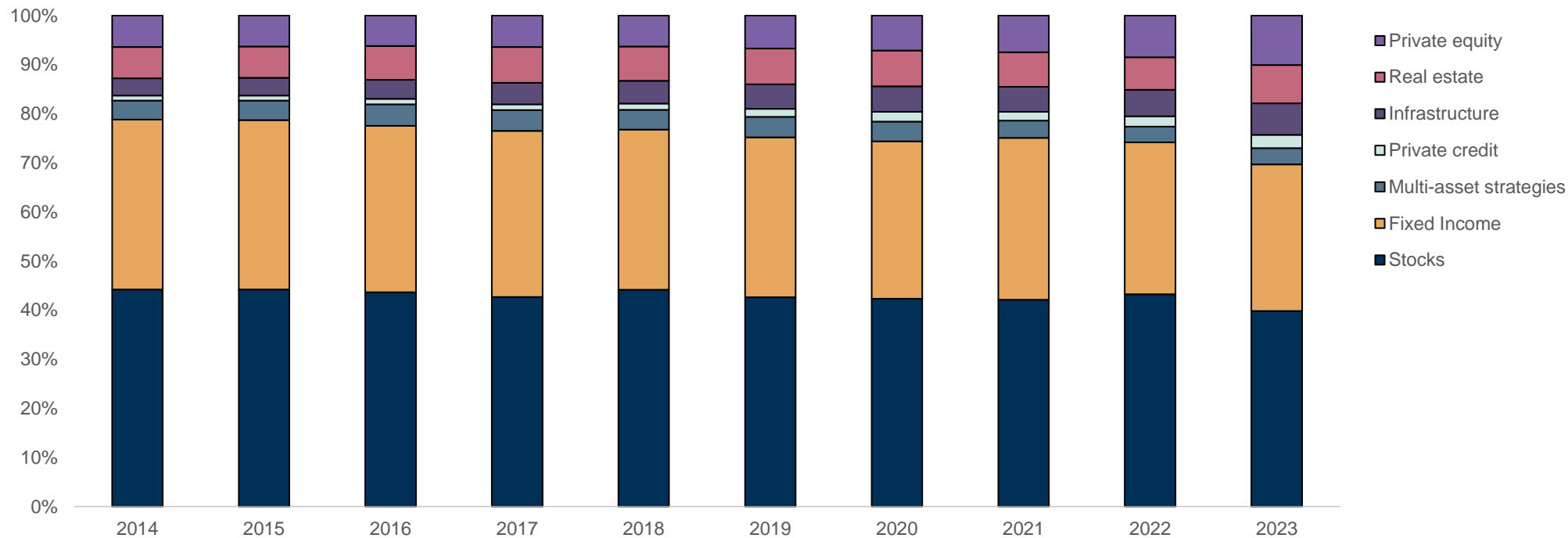
Qualified investor allocation to private markets has continued to increase...

In the past, lower-for-longer interest rates drove investor attention to private markets. Now, even amid higher rates, allocation has grown.

- After the global financial crisis, lower rates forced institutional investors to seek yield and higher returns from private markets. In the current environment, interest rates are higher, but allocations continue to grow. Data on investor allocations suggests that qualified investors have more appreciation of the diversifying benefits of the allocation.

Institutional investors have steadily increased their allocations to private markets...

Institutional investor asset allocations, 2014 - 2023



Sources: McKinsey, CEM Benchmarking, 2024. Data for 2024 is not yet available.

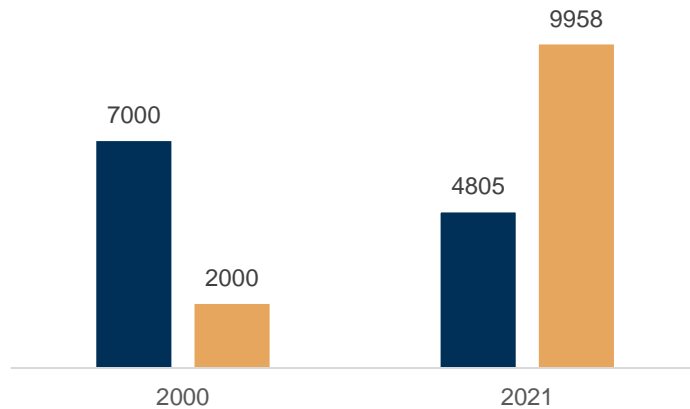
... desire for access is driving democratization of private markets, too

Public equity market concentration and the proliferation of private markets knowledge creates interest among more qualified investor types.

- Product innovation in the private markets space has created opportunities for qualified investors to fundraise among a larger set of investors, including high-net-worth investors. Interest in private markets strategies among these investors has grown in part due to its historically higher return and low volatility profile (though infrequent mark-to-market policies contribute to this expectation).
- However, several trends in public markets have also contributed to this dynamic. In equity, for example, fewer and fewer companies are listed for public shareholding (**left chart**). In recent years, as large-cap technology stocks have outperformed the index, equity market concentration – both geographically (**middle chart**) and strategically (**right chart**) – has increased. These dynamics give investors the perception that the public markets do not provide as diverse an opportunity as they used to, nor do they provide efficient access to the “main street” or early-stage opportunities.
- As a result, we have seen an increase in qualified investor curiosity about and allocation to the private markets as an opportunity to diversify their equity holdings. This includes access to the “main street” opportunities for value creation that the middle market and lower middle market provide.

Company ownership has moved steadily from public to private markets

■ U.S. public companies ■ U.S. private companies



Sources: New York Life Investments Global Market Strategy, PitchBook, Amundi, CREATE Research, January 2025.

U.S. market capitalization dominates global market capitalization

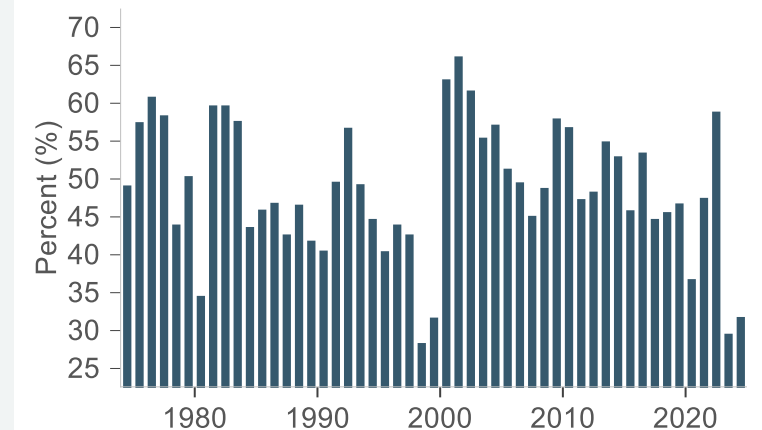
— U.S. market cap / world market cap



Sources: New York Life Investments Global Market Strategy, Bloomberg, Macrobond, June 2025. U.S. market cap is represented by the capitalization of the The MSCI USA Index — a free-float weighted U.S. equity index. Global market cap is represented by the capitalization of the MSCI ACWI — a free-float weighted global equity index. Past performance is not a guarantee of future results.

Few stocks outperform the S&P 500 index in recent years

Percent of S&P 500 stocks outperforming the index over the calendar year



Sources: New York Life Investments Global Market Strategy, NDR, Bloomberg, Macrobond, June 2025.

Our key takeaways per private markets asset class

Private and illiquid strategies may not suit all qualified investors; those with access can consider these high conviction themes.

| Private equity | Private credit | Real estate | Real assets |
|--|---|--|--|
| <ul style="list-style-type: none"> After improving in the second half of 2024, exits slowed in Q1 2025. Uncertainty around demand, cost of goods and capital, and the impact of policy changes makes it difficult to price risk. That said, sponsor pressure makes it likely that deal activity will resume when there is more clarity, even with policy changes (e.g. tariffs). Fundraising has been concentrated in large and mega funds, creating an opportunity for middle market and lower-middle market managers to sell upmarket. Moderate interest rate levels and higher volatility mean that private equity funds will need to implement effective value-creation initiatives to grow company profits. New sources of liquidity have emerged over the last few years that we believe provide private equity investors with diversified opportunities to generate liquidity, creating more stability for the space. | <ul style="list-style-type: none"> During a turbulent time, private credit has been a relative bright spot, topping private asset classes in terms of fundraising growth, increases in assets under management, and performance. The impact of potential policy or economic headwinds is difficult to predict, but the sector has so far shown resilience. A strong economic starting point and modestly lower interest rates support confidence in credit performance for 2025. Leverage may rise as the economic cycle extends, driving our focus on credit quality. In the event of a more significant economic slowdown, the direct relationship between borrowers and lenders in private credit may allow funds in this space to navigate risks more fluidly. This appears to be even more the case for the middle market. Historically speaking, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes. | <ul style="list-style-type: none"> The early phase of countries' rate-cutting cycles may kickstart a generational opportunity in real estate allocation. A normalizing yield curve tends to signal the largest range in debt and equity opportunities for private investors. Europe has seen more price discovery already. While the U.S. may see more volatility, especially in office space, we believe the bottom is in for many sector valuations. In our view, this means a market timing opportunity in equity may be arising. Investors have often focused on disruptions to office space related to work-at-home adjustments. But similar disruptions are driving higher rents in other sectors. Environmental improvements, better amenities, and strong demand related to secular changes (e.g. demand for data centers warehousing, and logistics) create opportunities in our view. | <ul style="list-style-type: none"> In our view, global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets. We believe this demand may come through at least two channels. The first is a physical need for commodities and materials to build the infrastructure required to fuel these global megatrends. The second is that this capital-intensive stage in the global economic environment may lead to higher inflation and interest rate volatility. Historically, real assets have outperformed during periods of higher inflation and interest rate volatility. Despite higher valuations in the foundational layer of megatrends like AI, valuations for the inputs to these investment processes have not seen as much uplift. We believe that attractively priced assets with cash-flow-generating properties may provide return generation and diversification potential. |
| <p>Investor approach: We typically discourage trying to time the market, but 2025 and 2026 are likely to provide strong vintages for private equity investors – even as policy uncertainty slows deal flow. Focus on markets with supply-demand dynamics that enable high investment selectivity.</p> | <p>Investor approach: Capture the benefits of higher yield in both U.S. and European direct lending. We favor the middle market and lower-middle market due to their historical relative safety.</p> | <p>Investor approach: Qualified Investors who can play across the capital stack, risk spectrum, and geographies can potentially capitalize on market disruption. Focus on sectors experiencing secular demand.</p> | <p>Investor approach: Opportunities related to global transitions (digitization, electrification, supply chain re-globalization) have become clear. Diversify a private portfolio by considering the natural resources inputs to that process.</p> |

Opinions of New York Life Investments, 2025.

We believe the lower middle market presents a global private opportunity

Qualified investors may benefit from focusing on less efficient parts of the market; this lower middle market is one such opportunity in our view.

- Private markets have reached a considerable \$14.5 trillion in size across asset classes. Still, they remain a small portion – just 4% – of the total investable market. At the same time, company financing trends have shifted. The number of listed companies has fallen from 7000 to 4800 since 2000, and equity market capitalization has become increasingly focused in the United States.
- In response, more types of qualified investors are shifting their focus to private markets, seeking return potential and diversification. We believe qualified investors should focus on areas of the market that are less efficient, or where return characteristics cannot be as easily achieved in public markets. We see the lower middle market (LMM) of private equity and private credit to be one such opportunity – and one that is particularly attractive at the capital markets turning point investors may be facing today.

Our case for the lower middle market

What is the lower middle market (LMM)?

- The lower middle market is typically defined as companies with less than \$250 million in enterprise value, or private equity funds with less than \$1 billion in assets under management. The middle market is typically larger, with up to \$500 million in enterprise value. Large companies are typically those with \$1 billion or more in enterprise value.
- The number of companies is much larger than it is for large companies, providing a deeper pool of acquisition opportunities.
- Companies tend to be family or founder owned, so investment is typically the first institutional capital applied to the company's business.
- Qualified investors can focus more holistically on value creation through business building, rather than focusing on financial engineering as is typical in larger parts of the market.

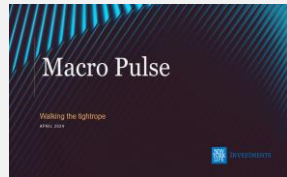
| Benefit | Description |
|-------------------------------|---|
| Competitive resiliency | <ul style="list-style-type: none"> • The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume. • Historically, the supply-demand imbalance for companies / assets has resulted in attractive entry valuations, with smaller companies trading at a discount to larger companies. • Deep pools of capital available to potential acquirers, such as corporate strategic acquirers and large/mega private equity funds, can result in consistent exit opportunities. • The cyclical nature and variability of bank loan volume create the need for private financing in credit markets. |
| Economic resiliency | <ul style="list-style-type: none"> • Lower middle market funds have historically outperformed larger segments over the long term, including in high interest rate and high inflation environments. • Contrary to common belief, company size explains only 6% of default frequency, whereas higher leverage, which is a key characteristic of larger funds, is the largest factor explaining expected default frequency. |
| Portfolio resiliency | <ul style="list-style-type: none"> • Lower middle market, middle market, and large & mega funds can offer diversification benefits and complementary exposure when paired together. |

Opinions of New York Life Investments, January 2025. For illustrative purposes only.

Global Market Strategy: our resources

Macro Pulse: Economic & market commentary

In an ever-changing landscape, understanding the trajectory of macro trends and economic forecasts is critical to making informed investment decisions.



Comprehensive outlook (& quarterly webinars)

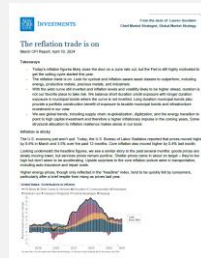


Weekly market update

From the desk...
(timely response to market movement, policy, data, etc.)



Weekly podcast & bi-weekly videos

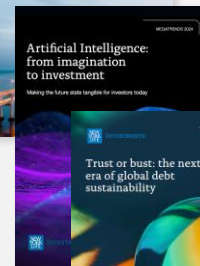
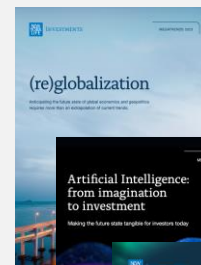


Thought leadership

(thematic reports, portfolio construction, podcast series, etc.)

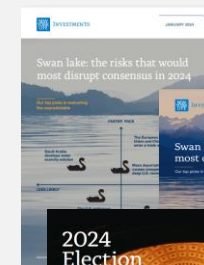
Megatrends

- Trust or bust: the next era of global debt sustainability
- Artificial intelligence: from imagination to investment
- (re)globalization



Politics and geopolitics

- Geopolitical risk in a shifting world order
- Swan Lake: the risks that would most disrupt consensus



Private markets

- Global market outlook



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Important disclosures

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Prospective investors should be aware that investments in private funds or alternative investment strategies are suitable only qualified investors who do not require liquidity and who can bear the economic risk, including the potential for a complete loss, of their investment. A Qualified Investor, also known as an accredited investor, is an individual or entity that is legally permitted to invest in hedge funds, venture capital funds, private equity offerings, and other private placements. This qualification is typically based on the investor's income and net worth.

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Active management typically involves higher fees than passive management.

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